McKinsey&Company

Assessing the Global
Compact's Impact

May 11, 2004

Note

The Global Compact was launched in July 2000 in response to United Nations Secretary-General Kofi Annan's call to business leaders to work with the United Nations to "initiate a global compact of shared values and principles, which will give a human face to the global market." The Compact seeks to mainstream universal principles in business activities around the world and to catalyze actions in support of UN goals.

The Global Compact is a decentralized and voluntary network, coordinated through an office in New York as an initiative of the UN Secretary-General. The Global Compact asks participants to support nine principles in the areas of human rights, labor and the environment.[1] From its inception, the Global Compact has embraced all companies whose leaders are willing and able to improve their companies' practices in these areas over time. Beyond general outreach to business and other stakeholders, the Compact engages participants in several ways: direct interaction with CEOs and other leaders, policy dialogues, the learning forum and web-based information sharing, and local launches and network creation.

After nominal seed funding from the Secretary-General's trust fund, further funding and secondments from donor governments have enabled the Global Compact Office to expand from 2 to 13 full-time staff members without drawing on UN budget support. In addition, the Global Compact has entered into formal partnership with five "core agencies" in the UN system.[2] Since its launch, the Global Compact has grown into an international network of more than 1,100 companies, with additional labor, civil society and other participants. The Global Compact has also forged strategic partnerships with organizations in the corporate citizenship field, including corporate social responsibility and business groups and academic institutions.

With the approach of its stock-taking Leaders Summit in June, the Global Compact Office asked McKinsey & Company to undertake a comprehensive impact assessment. The Global Compact Office opened itself without interference to a full external review and worked with our team in a cooperative spirit. After extensive discussions on methodology with Compact leaders, the McKinsey team focused the assessment on understanding the "intermediate impacts" the Global Compact has created. Simply cataloging Global Compact Office actions would have been banal, while an attempt to assess the Compact's impact on the ultimate goal of promoting inclusive globalization would have been spurious, given the many variables that

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[1] The nine principles are detailed on the Global Compact website at www.unglobalcompact.org. The special addition of a tenth principle on anti-corruption is currently being considered.

[2] The core partner agencies are: the International Labour Organisation (ILO), Office of the High Commissioner for Human Rights (OHCHR), the UN Development Programme (UNDP), UN Environmental Programme (UNEP), and the UN Industrial Development Programme (UNIDO).

affect it. Instead, we assessed the Compact's success in supporting the necessary and sufficient conditions for making progress toward the ultimate goal. Given the Compact's primary goal of promoting corporate citizenship among companies, our study focused on the adoption of the Global Compact's nine principles within companies. Additionally, we considered the Global Compact's "secondary" impacts on civil society and governments that, while not an operational goal, have arisen organically: increased efficacy of the UN through a more collaborative approach to the private sector, support for governments seeking to spur a more effective role of business in society, and the convening of a unique multi-stakeholder network.

To develop our findings, we conducted 59 interviews of a cross-section of company, government and civil society (including labor) representatives and of Global Compact supporters and detractors, sent a web-based survey to 1,700 Compact contacts that was completed by approximately 400, and undertook extensive internal data analysis and secondary research. We also tested our findings with three focus groups. Where possible, we have disaggregated our findings to reflect the different impacts the Compact appears to have in different countries. However, our research unavoidably focused on the Global Compact Office: while we attempted to determine the decentralized impact of the Global Compact through national launches and local networks, these experiences are not yet sufficiently understood. (Appendix A provides additional detail on our methodology.)

Our impact assessment has found that the Global Compact has had noticeable, incremental impact on companies, the UN, governments and other civil society actors and has built a strong base for future results. The Compact has primarily accelerated policy change in companies, while catalyzing a proliferation of "partnership projects," development-oriented activities that companies undertake with UN agencies and others partners. The Compact has also developed a solid participant base and local network structure, establishing itself as the largest voluntary corporate citizenship network of its kind. In addition, the mere existence of the Compact exerts a surprisingly powerful influence on companies and within the UN, empowering champions for reform. However, inconsistent participation and divergent and unmet expectations limit the impact on companies and continue to threaten the Compact's long-term credibility with participants. As it transitions from its entrepreneurial, experimentation phase to a phase of sustained growth focused on impact, the Global Compact will need to manage participants' expectations by increasing the value of participation with more targeted business-oriented engagement mechanisms, robust local networks, and effective communication and collaboration with participants and partners.

1 Solid foundation for inclusive globalization

The Global Compact has had noticeable, if incremental, success in the areas we assessed. A solid participant base and the power of the idea of high-level UN engagement with the private sector have largely driven these successes to date.

PROGRESS ON PROMOTING VISION

The launch of the Global Compact has accelerated and/or eased change within some participant companies, contributed to cultural shifts in parts of the UN, proven useful to several governments, and initiated unique multi-stakeholder discussions. Within companies, it has primarily acted as an accelerator of action. Within the UN, and for several governments, it has given impetus to existing movements to re-conceptualize relations with the private sector. The Compact's multi-stakeholder structure also provides a valuable venue for the inclusion of labor and NGOs in important debates with companies and governments.

Accelerating incremental change in companies

The Compact has contributed to some reform in companies, acting primarily as an accelerator and facilitator of action, rather than the dominant force for change. Participation in the Compact has spurred greater attention and resources for corporate citizenship efforts, accelerated the implementation of new policies and led to a proliferation of partnership projects and some policy change.

1. Additional spur to on-going efforts. For many companies, especially those based in OECD countries, joining the Compact signaled a continued engagement with corporate citizenship, rather than a radical new commitment. For example, while approximately three-quarters of the companies in our survey reported conducting a strategic review of company policies in the last five years relating to the Compact's principles, most of those (63 percent) had already done so prior to joining the Compact.
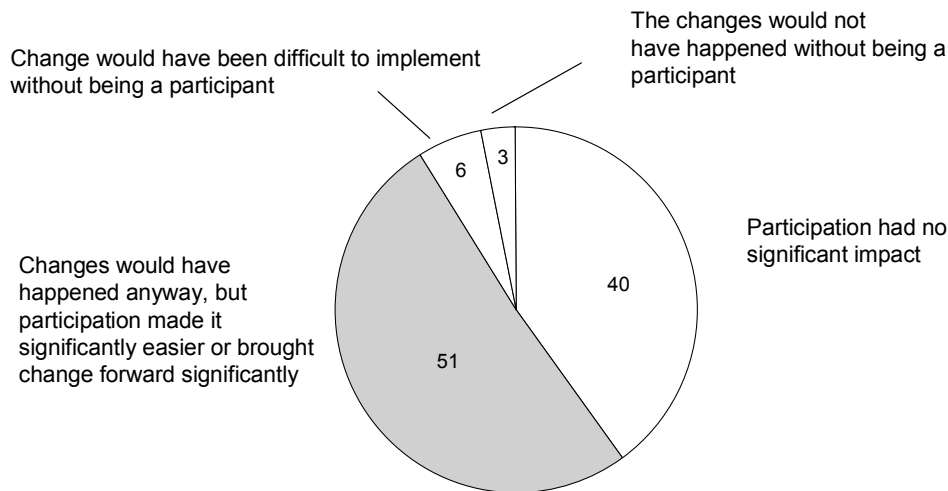
In some cases, participation in the Compact helped attract additional resources for corporate citizenship efforts. For other companies, participation in the Compact provided coherence to corporate citizenship efforts, unifying internal policies around a set of objective and politically neutral principles. For example, a major

Exhibit 1

IMPACT OF GLOBAL COMPACT ON COMPANY REFORM

Percent of company respondents*

Were any of these [policy] changes helped by your organization's participation in the Compact?

The changes would not have happened without being a participant

Change would have been difficult to implement without being a participant

Changes would have happened anyway, but participation made it significantly easier or brought change forward significantly

Participation had no significant impact

6   3

40

51

* Percent of respondents who indicated some change made since joining Compact (who made up 67% of total)

Source: Survey of GC participants

For most of the survey respondents who report that their companies made changes to implement the Compact's principles, participation in the Compact accelerated, rather than instigated the change.

European company cited this unifying power as an important tool following a major merger. The Compact's principles provided the newly-unified company with an external code around which to build a new approach to corporate citizenship, avoiding potentially crippling debates about which of the former companies' policies should be adopted.

2. Accelerating policy change. A few companies cite the Global Compact as a major instigator of policy change, but most often, the Compact smoothed change, accelerating the process, rather than driving new initiatives (Exhibit 1). Almost half of the survey respondents said they changed their policies in relation to the nine principles since joining, with 34 percent reporting that the Global Compact was a significant driver of these changes. In some cases, by engaging the senior leadership, the Compact also brought global attention to practices taking place in local affiliates of multi-national companies. As one manager told us, "Without the Compact, many projects would be happening, but only at a regional or local level. The Compact 'upsized' the issues and made them global."
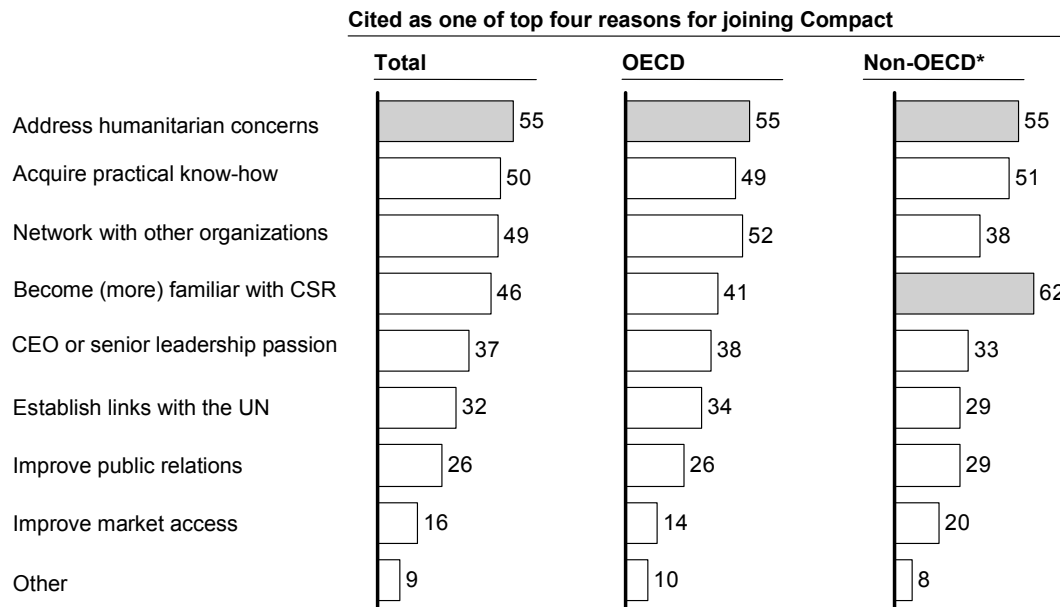
The Global Compact appears to be playing a stronger "gap-closing" role in developing countries. While most OECD participants had already begun to develop approaches to corporate citizenship prior to joining the Compact, for many companies in developing countries, the Compact is the first corporate citizenship initiative in which they have formally engaged. Almost two-thirds of survey respondents outside the OECD reported a major factor motivating them to sign up to the Global Compact was to become more familiar with corporate responsibility issues (compared to less than half of the respondents from OECD countries) (Exhibit 2).

3. Action focused on projects. Companies that have taken action to support the Compact's principles since signing up have focused their efforts on developing partnership projects and improving their human rights and health and safety policies (Exhibit 3). Slightly more than half the survey respondents report taking action to support the principles; almost all of them cite partnership projects as one of these activities. While implementing the nine principles, not partnership projects, has been the focus of the Global Compact's mission, for most participants, such partnership projects represent the most visible manifestation of the Global Compact.

Exhibit 2

WHY COMPANIES SIGN UP TO THE GLOBAL COMPACT

Percent company respondents

	Cited as one of top four reasons for joining Compact		
	Total	**OECD**	**Non-OECD***
Address humanitarian concerns	55	55	55
Acquire practical know-how	50	49	51
Network with other organizations	49	52	38
Become (more) familiar with CSR	46	41	62
CEO or senior leadership passion	37	38	33
Establish links with the UN	32	34	29
Improve public relations	26	26	29
Improve market access	16	14	20
Other	9	10	8

Source: Survey of GC participants

"Address humanitarian concerns" is the most frequently mentioned motivation for joining the Compact. In non-OECD countries, however, the Compact appears to play a more fundamental role, attracting companies seeking CSR familiarity.
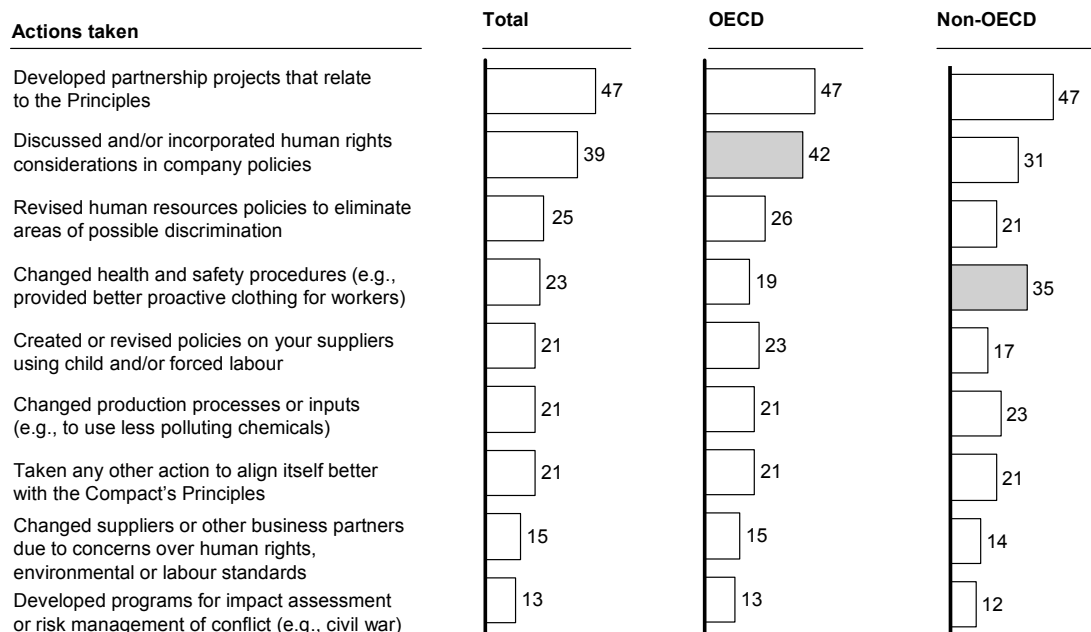

Often locally driven, these projects range from new business ventures to philanthropic contributions to development projects (such as school or clinic building). Examples include a collaboration between a local company, NGOs and local government in Russia that developed a forest management project as a possible model for the entire Russian forestry sector; a project by a food and drink company in Bulgaria with UN agencies to raise awareness about HIV/AIDS prevention; and an Indonesia energy company's project with local labor and a university to re-vegetate a well site.

Among the companies that report changing policies to support the Compact's nine principles, different motivations for joining the Compact manifest in the different policy changes they adopt. Companies from OECD countries cite reform of human rights policies as the most common action. While some companies have treated

Exhibit 3

PARTICIPANT ACTIONS IN SUPPORT OF GLOBAL COMPACT GOALS

Percent of company respondents (of the 58% that report taking at least one action)

Actions taken	Total	OECD	Non-OECD
Developed partnership projects that relate to the Principles	47	47	47
Discussed and/or incorporated human rights considerations in company policies	39	42	31
Revised human resources policies to eliminate areas of possible discrimination	25	26	21
Changed health and safety procedures (e.g., provided better proactive clothing for workers)	23	19	35
Created or revised policies on your suppliers using child and/or forced labour	21	23	17
Changed production processes or inputs (e.g., to use less polluting chemicals)	21	21	23
Taken any other action to align itself better with the Compact's Principles	21	21	21
Changed suppliers or other business partners due to concerns over human rights, environmental or labour standards	15	15	14
Developed programs for impact assessment or risk management of conflict (e.g., civil war)	13	13	12

Source: Survey of GC participants

Partnership projects are most common action companies have taken to support Compact's goals. OECD-based companies focused more on closing human rights gap while developing country companies emphasize basic health and safety.

environmental and labor issues as core business activities for many years, formal considerations of human rights policies are relatively novel for some of them.[3]

Outside the OECD, however, companies most often cite health and safety policy reform (35 percent) as an action they have taken to support the Compact's principles (compared to 31 percent citing human rights policy changes). Many of these companies participate in the Compact at least partly to enhance their ability to enter into supplier relationships with MNCs; aligning health and safety codes with international expectations is increasingly important to win contracts.

Impact on civil society and governments

While the Global Compact's primary focus has been to engage with companies on corporate policies and performance, it has created an important secondary effect in civil society and governments. The Compact has helped to push forward the Secretary-General's reform agenda for the United Nations and provided some governments with an additional tool to promote a new role for business in society.

1. Promoting UN engagement with private sector. The Compact has helped spread the acceptance of business collaboration throughout the diffuse UN network and helped promote innovative intra-UN partnerships. The Global Compact Office has participated in a series of policy debates and advocacy campaigns within the UN to institutionalize support for greater openness of the UN system. Local UN officials often also enjoy a heightened profile among the local business community after a Compact launch, which raises their awareness of opportunities to work with business in support of UN goals. The Global Compact has also helped to catalyze the UN system's first Focal Points Meetings concerning the private sector.

From the private sector's perspective, the Compact has contributed to increased effectiveness of UN interaction with business. More than three quarters of the survey respondents report that the Global Compact has helped their organization interact more effectively with the UN, providing an entry point to the broader UN system and raising the local profile of UN agency partners through their participation and leadership of local networks.

The Global Compact has also helped to spur collaboration among UN agencies. The Compact network includes five core UN agencies, whose field staff are often involved in local Global Compact networks, projects and development of specific tools. While such cooperation does not extend far beyond the handful of people

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[3] Notable exceptions exist in industries that receive more media and public attention because of human rights concerns, such as the extractive and apparel industries.
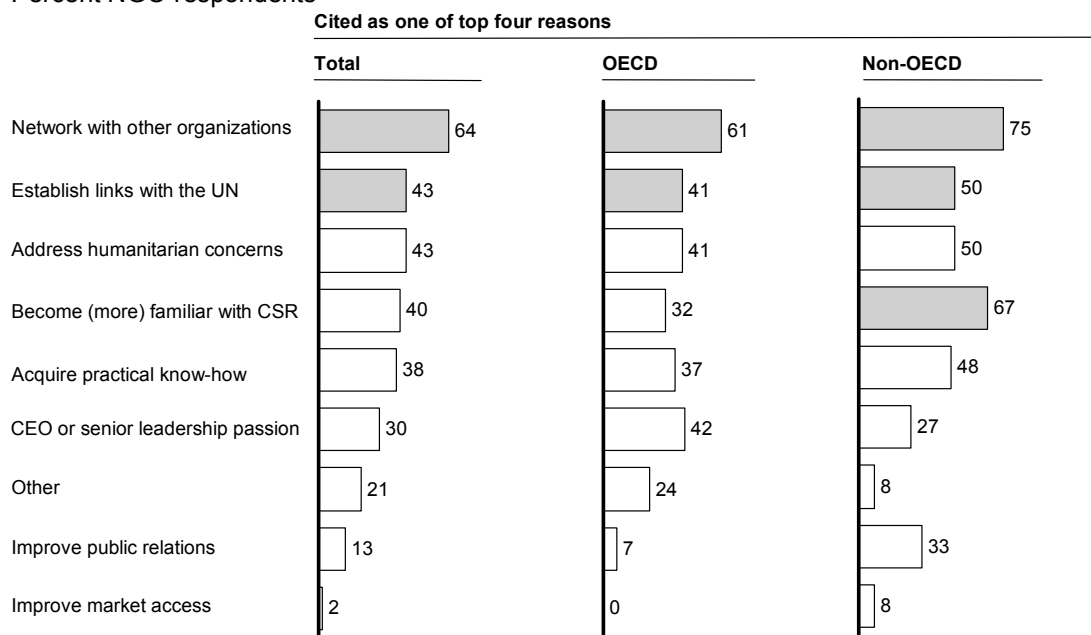
directly tasked with liaising with the Global Compact, and has been hindered at times by divergent expectations and poor communication, the Global Compact has become a noteworthy arena for inter-agency collaboration.

2. Providing impetus for governments to restructure relations. The Global Compact has provided some governments with an additional tool in their on-going efforts to restructure the role and conception of business in society and to harness business as a modernizing force. For some European governments, the Compact serves an interest in promoting a collaborative, rather than combative approach to the relationship between business and society. Other European governments support the worldwide adoption of corporate citizenship standards that their companies already embrace in order to level the competitive playing field. In developing countries, the Compact more typically attracts local champions among business leaders, who are drawn to the potential of the Compact to raise their profile as opinion leaders and decision makers. These business leaders sometimes gain support from government officials who recognize the potential for their country's

Exhibit 4

WHY NGOS SIGN UP TO THE GLOBAL COMPACT

Percent NGO respondents

Cited as one of top four reasons

	Total	OECD	Non-OECD
Network with other organizations	64	61	75
Establish links with the UN	43	41	50
Address humanitarian concerns	43	41	50
Become (more) familiar with CSR	40	32	67
Acquire practical know-how	38	37	48
CEO or senior leadership passion	30	42	27
Other	21	24	8
Improve public relations	13	7	33
Improve market access	2	0	8

Source: Survey of GC participants

NGOs are more strongly attracted by the potential to network both with companies and with the UN. As with companies, outside the OECD countries, NGOs seek to become more familiar with CSR through participation in the Compact.

involvement in the Compact to empower the progressive, modernizing elements of the business community.

Convening unique multi-stakeholder fora

Beyond its impacts on specific institutions in the private sector, the UN and governments, the Global Compact has also convened unique multi-stakeholder meetings. While many companies have independently become increasingly creative in their interaction with civil society over the past ten years, few private sector initiatives have the convening power to bring NGOs, labor groups, and UN agencies together with business. Especially in local networks, the Compact has created unique opportunities for multi-sectoral interaction, ranging from discussion of general issues, such as human rights policies or environmental protection, to the undertaking of specific projects. One UN agency official described the unique capacity of the Compact to bring formerly disparate actors together: "This was the first time these parties worked together and it wouldn't have happened without the Compact."

The opportunity to network with companies and others is an especially important draw for the NGOs and labor groups that participate in the Compact (Exhibit 4). More than half the NGO survey respondents report that since signing up to the Compact they are more engaged in helping companies to solve problems or make decisions in the implementation of the Compact's principles, with one-third of these NGOs citing their participation in the Compact as a driving force behind their increased collaboration.

SUCCESS TO DATE REFLECTS SOLID NETWORK AND POWER OF IDEA

Recruiting initiatives and increasingly organic growth have built up a solid participant base and strong local network structure. The Compact also wields an important "existential power" – its mere existence can catalyze changes in perception and empower individual actors within companies, the UN system, and civil society more broadly. This indirect power, has, in fact proven stronger than the impacts on companies through direct Global Compact engagement mechanisms.
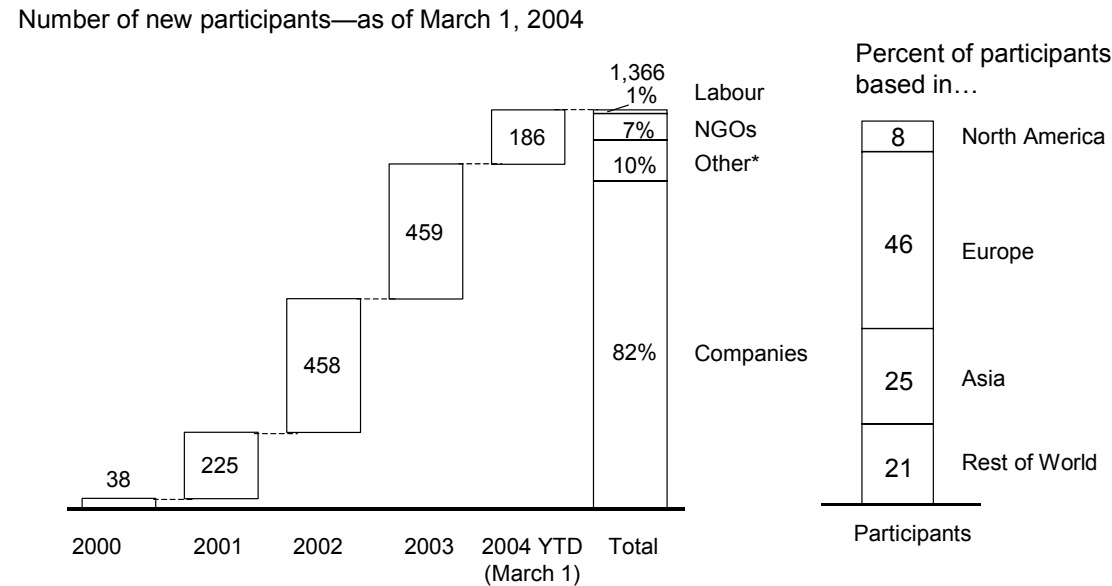
Solid participant base and network

The Global Compact has developed a solid participant list, establishing the Compact as the largest voluntary corporate citizenship network of its kind. This participant base, coupled with the establishment of local networks and partnerships,

give the Global Compact a stronger local presence than other similar initiatives in many countries.

1. Large and growing list of participants. By March 2004, the Global Compact had attracted 1,366 formal participants (whose CEO has sent a letter to the UN Secretary-General committing to work toward the Compact's nine principles and to support the Compact itself)[4] (Exhibit 5). With more than 1,100 companies formally committed to the Global Compact, the Global Compact is by far the world's largest voluntary corporate citizenship network, dwarfing other similar, voluntary initiatives, such as the Global Reporting Initiative (387 participants) and SA8000 (353 participants). Formal participation figures underestimate the reach of all these initiatives as local activities involve many companies that are not global participants. Some estimate that local Global Compact activities involve an additional 1,000 companies, though inconsistent record-keeping by local networks makes verification difficult. The widespread participation is even more remarkable

Exhibit 5

RECRUITMENT STEADY AFTER EARLY BURST, WITH RELATIVE CONCENTRATION IN EUROPE AND SHORTFALL IN NORTH AMERICA

Number of new participants—as of March 1, 2004

Percent of participants based in…

1,366	
1%	Labour
7%	NGOs
10%	Other*
82%	Companies

8	North America
46	Europe
25	Asia
21	Rest of World

Participants

2000: 38 2001: 225 2002: 458 2003: 459 2004 YTD (March 1): 186 Total

* Includes: cities, universities, associations and foundations
Source: Global Compact Office

[4] On April 30, 2004, the number of official participants stood at 1,457.

in light of the Compact's relatively late start, as the Compact's operational launch in 2000 lagged other initiatives, many of which were launched in the mid-1990s.

During its first years of operations, the Global Compact Office invested heavily in participant recruitment with direct outreach to leading companies in most major economies. Sign-ups typically spiked in the run-up to and immediate follow-on from launches and global learning fora and policy dialogues. National launches continue to catalyze mass sign-ups (approximately 200 companies signed-up during a recent launch in Argentina), but company sign-ups increasingly result from peer recruitment and company interest; while the Global Compact Office continues direct outreach, this activities is increasingly less important for general recruitment.

2. Relative recruiting success in Europe and developing countries. Among its formal participants, the Global Compact is relatively concentrated in Europe with a noticeable shortfall in North America (Exhibit 5). This reflects a general trend among similar global corporate citizenship initiatives. For example, WBCSD and the Global Reporting Initiative (GRI) both have almost half of their formal participants located in Europe, while GRI has a similarly low share of its members in North America.

The Global Compact Office invested substantial time during its first four years in attempting to bolster support among U.S. companies. Three major roadblocks hamper this effort: fear among U.S. companies of the potential legal liabilities they will incur with formal participation in the Compact, concern among these companies about the implications of the Compact's labor rights provisions, and a relatively lower assessment of the potential benefits of association with the UN. The Compact Office has worked with the American Bar Association to create a standard entry letter that can mitigate the fear of litigation. The other two roadblocks, labor rights and UN reputation, both outside the Compact's sphere of influence, are likely to continue to hinder efforts to recruit U.S. companies.

The Compact has established a relatively strong presence in developing countries with more than half of the Compact's formal participants headquartered outside the OECD. Participation in developing countries appears closely linked to the presence of local networks. The developing countries with the largest participation list all have large local networks. The convening of the third annual global learning forum in Brazil in 2003 also gave special impetus to recruiting efforts there (Exhibit 6).

3. Local networks enhance presence. In many countries, local networks provide an important supporting framework for the participation of local companies and subsidiaries of transnational corporations. These networks, which convene fora for local language, peer-to-peer engagement, address the local cultural and demographic specificities that many organizations face in implementing the Compact's principles. The Global Compact Office has strategically fostered the creation of local networks in critical markets. At the same time, many networks have emerged organically in response to broader outreach and communications efforts. To date, 43 networks have been launched of which 29 are active and in regular communication with the Global Compact Office.

Sources of local leadership for Global Compact country or regional networks range from a group of champions to business associations and CSR organizations. In developing countries, UNDP often provides administrative support to the local network. Local networks exhibit a wide variety of structures and activities. At their best, they contribute to faster diffusion of the Compact's principles through peer-to-peer interactions, provide the Compact with local credibility and foster multi-stakeholder collaboration in local projects. The less active networks tend to engage solely in partnership projects with a small group of companies and one or two UN agencies. (Appendix B provides a more detailed description of the local networks.)

Exhibit 6

LOCAL NETWORKS SPUR RELATIVELY STRONG PRESENCE OUTSIDE OECD

GC participation by geography

Percent of participants		Number of participants
100% = 1366		
Non-OECD 55	Philippines	147
	India	95
	Brazil	83
	Panama	52
	Other	280
OECD 45		751
Global Compact		
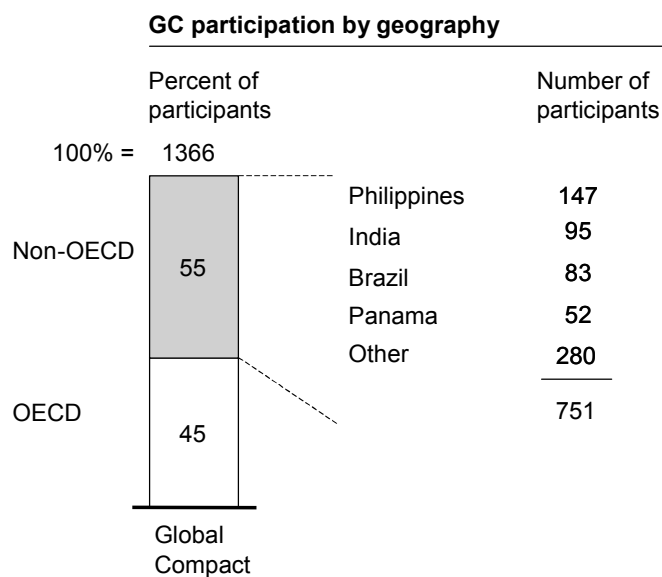
Data current as of March 1, 2004 (does not include recent launch in Argentina that brought more than 200 new companies into Compact)

Source: Global Compact Office

Unlike similar initiatives, about half of all Global Compact participants are based in non-OECD countries where local networks drive recruiting. The Compact has 16 active networks in developing countries.

4. Partnerships expand Compact's influence. In addition to its initial participants, the Global Compact has also forged important relationships with key "business influencers." These groups, notably business consortia, corporate social responsibility organizations and academic institutes, extend the Compact's reach and capacity. For example, a partnership with the European Foundation for Quality Management seeks to incorporate the Global Compact's principles into standard

quality measurements, while a collaboration with the Global Reporting Initiative will help to streamline reporting requirements for companies. For content development, a collaboration with the Danish Institute for Human Rights will help the Compact to produce toolkits for companies to implement the Compact's human rights principles. A recent outreach to business schools, including a partnership with the European Foundation for Management Development, and to business-school student organizations in the United States, also marks an important long-term investment in promoting the awareness of universal principles among future business leaders. Finally, two recent efforts to involve stock markets and financial market analysts in the Global Compact have the potential to raise awareness of the Compact and the benefit of participation to companies. Given the limited resources of the Global Compact Office, such partnerships are crucial as the Compact seeks both to expand its reach and to meet the demanding expectations of participants for practical tools.

Significant power from Compact's existence

The symbolism of the Global Compact's creation and its established brand as a major initiative of the Secretary-General are surprisingly influential. Corporate citizenship champions within companies have leveraged their leaders' commitments to the Global Compact as a wedge to push their corporate citizenship agendas. Similarly, the Compact has provided an opportunity for officials in the UN and in some governments to explore new relationships between the private and public sectors. The Compact's ability to foster and maintain participation from a diverse base of companies, civil society groups, UN agencies and governments has also created a unique movement that embodies the potential of a voluntary initiative to create a vibrant platform for multi-stakeholder collaboration.

1. Empowering champions within companies. An important component of the Compact's acceleration role is the internal signals that participation sends out. The CEO's (and Board's) decision to sign onto the Compact represents a visible and public commitment. The internal vetting processes that may precede the decision to join also raises the profile of corporate citizenship issues from middle to senior management and even the Board. In some cases, the decision to join also empowered internal corporate citizenship champions who receive a credibility boost.

2. Expanding political space and credibility in the United Nations. Within the UN system, the Compact has created political space for interaction with business. As one agency representative noted, the "GC's existence, and its close association with the SG, give UN representatives a license and safety to engage with the private sector." In addition, the Global Compact has increased UN agency access to

companies. One of the core agencies described how interacting with companies in the Global Compact's meetings has "made us realize that companies are asking" for assistance from the UN.

Some of the Global Compact's corporate participants also note that the inception of the Compact signaled to companies the Secretary-General's real commitment to changing the culture of the UN. One company official told us, "From its mere existence, the Compact has had a transformative impact on the UN's relationship with the private sector. … The fact that the Secretary-General is so publicly associated with this initiative gives the UN credibility with business that it has never had before."

3. Forging links through local launches. At least in some countries, local launches have raised the profile of the local UN representatives and built bridges between the local UN agencies and business community. UN agencies are involved in 30 of the 38 local networks (79 percent). Especially where local UN agency representatives convene and facilitate the network, local launches raise awareness of the UN's capabilities among governments and business people. One representative from a core agency explained that participation in the Global Compact "heightened the profile for core agencies – the other agencies are envious." One African MNC official described how his CEO was pleasantly surprised to discover the extent to which the local UNDP office could support the company's project plans. Prior to the Global Compact launch, the leader had assumed the UNDP would not be able to provide any relevant services.

4. Embodying potential of multi-stakeholder network. The rapid growth of the Global Compact network uniquely embodies the potential of voluntary initiatives. Based on its success in attracting and retaining its diverse participants, the Compact shows that antagonistic groups can discuss and resolve disputes and dilemmas. To keep the fractious network afloat has required substantial investment of time and energy by the Global Compact Office as it has navigated the conflicting demands of NGOs, labor groups and companies. NGOs and labor groups typically push for the Global Compact to take on a normative role while most business groups and companies demand the Compact shield them from accusations and regulation. The fact that the Compact continues to exist as a multi-stakeholder platform, despite almost constant threat of withdrawal by various participant groups, indicates an important impact of the outreach efforts of its backers, champions and administrators.

2 What it will take to succeed in next era

During its initial entrepreneurial phase, the Compact has built a solid foundation and established a recognized brand on a crowded corporate citizenship stage. The influence of the Compact's existence points to the vast potential inherent in UN leadership making such a visible commitment to engage with business.

As it transitions from this entrepreneurial phase, which has been marked by recruitment and experimentation, to a mature phase of sustained growth and impact, the Compact will need to become more effective at delivering impact through its activities. The Compact will need to make this transition within the constraints of limited resources and divergent participant expectations. A successful transition will require addressing four inter-related issues:

- ¶ Increasing the value of participation by offering targeted business-oriented engagement mechanisms that build on partnerships and catalyze and disseminate more practical content

- ¶ Managing conflicting participant expectations by reforming governance, executing more tightly and communicating more consistently what the Compact stands for and what it offers

- ¶ Developing more uniformly active and capable local networks to facilitate local engagement with participants and to maximize the potential of the Compact's unique, but currently loose, network system

- ¶ Formalizing the role of UN partner agencies to leverage their resources and expertise more efficiently and to allow the Compact to realize its potential as a symbol of UN collaboration and renewal.

These improvements have the potential to transform the source of the Global Compact's impact from the power of its symbolism to the unique value of its activities. This would allow the Compact to meet the higher bar against which participants will measure its next phase.

INCREASE VALUE OF PARTICIPATION THROUGH TARGETED OFFERINGS

During its start-up phase, the Compact attempted to address a variety of issues and experimented with various ways of engaging its participants. While this *ad hoc* approach generated a wide range of activities that helped to build and solidify the network, some engagement mechanisms have not proven useful to participants. In the eyes of many companies, the Compact's credibility stems from its association with the current Secretary-General, not from its on-going activities. In the future, the Compact will need to increase the value of participation by offering targeted business-oriented engagement mechanisms and building on its strong partnership base to catalyze and disseminate practical content.

Through outreach to leaders and public relations, the Compact has built a solid network of participants and a strong brand presence that now brings more than 10,000 web visits per week and 1,000 press mentions per year. However, some of the primary engagement mechanisms at a global level – global meetings on policy issues, good-practice sharing workshops and web-based learning – have not proven impactful for many participants. Among the companies that have formally signed onto the Compact, six out of seven (86 percent) have not participated in any international meeting. The Global Compact website is similarly under-utilized with six out of seven participants yet to make any submissions to the online learning forum. Participants who have attended meetings report that global meetings, while useful and enjoyable as networking opportunities, do not provide enough practical insights into implementing the Compact's principles.

Given its limited resources, the Compact should focus on convening high-impact meetings on discrete topics in specific locations where its unique multi-stakeholder convening power can generate new insights and catalyze meaningful relationships between participants. Companies participate in the Compact for widely divergent reasons, ranging from seeking practical tools to implementing a specific principle in a specific setting, to forging development partnerships, to finding export partners. To be able to offer sought-after activities that generate unique insight and value, the Compact will need to target its business-oriented engagement to these different participant segments. Meetings could bring together companies based on an affinity of expectations, with separate gatherings for companies engaging for the first time with basic approaches to corporate citizenship and others seeking advice on closing specific implementation gaps, such as human rights policy.

A more focused agenda would also allow necessary investment in synthesizing learnings and disseminating them widely. A diffuse agenda of activities has prevented the Compact from following-up on most major meetings to ensure

working groups deliver promised end-products. It is instructive that the one policy dialogue to which the Global Compact Office applied dedicated follow-up resources – the Role of Business in Zones of Conflict – is the one that many participants cite as a success. While the Compact itself lacks the resources to generate practical content on all principles, it can build on its strong base of partnerships to meet the widespread participant call for toolkits on implementing the principles. Finally, given the importance of partnership projects to participants, the Compact Office should also invest in understanding their proliferation and in integrating them into its notion of the Compact's impact.

MANAGE CONFLICTING EXPECTATIONS

The recruitment and retention of a diverse group of participants has represented a major challenge for the Global Compact Office. The diversity of expectations that various groups bring to the Compact, and that the Global Compact Office has at times fueled by molding its message to suit each audience, created inevitable frustrations when these expectations were not always met. To mitigate these frustrations in the future, and to keep the network together, the Compact will need to undertake basic governance reform, to meet participant's expectations of execution efficiency and to communicate consistently what the Compact stands for and what it offers.

Divergent expectations drive inevitable frustrations among some participants. Participant companies widely expect the Compact Office to provide practical toolkits and implementation guides, citing "seeking practical know-how" as a major motivation for joining the Compact[5]. The perceived lack of focus of global learning meetings and dialogues on practical end-products generates widespread skepticism about the Compact Office's understanding of how the private sector functions. For their side, many NGOs and labor groups challenge the Compact's insistence on maintaining its voluntary, all-embracing approach to companies and its reluctance to take on a broader, normative or even regulatory role.

To manage these expectations for the long-term, the Compact will need to hone its governance, execution and communications. Governance reform will need to clarify both what Compact participation entails and what ownership participants will have over Compact decisions and directions. With the initial experimental approach to quality control through "social vetting" proving ineffective, the Global Compact Office has now moved toward a more decentralized approach, asking

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[5] The publication, in June 2004, of *Raising the Bar*, a catalog of available tools, information and resources that companies can use in implementing the Global Compact principles, may meet some of this expectation.

companies to communicate progress on implementing the Compact's principles through the companies' own public documents. This new approach, along with the introduction of "Integrity Measures" to ensure broad boundaries of participant behavior, has the potential to improve the Compact's reputation among both companies and other stakeholders, by streamlining requirements for companies and giving greater voice to NGO and labor concerns. Governance reform that devolves greater power and oversight responsibility to the participants themselves will also be necessary to promote ownership and diffuse criticism. The formation of a formal governing board, with representative participation from the Compact's various stakeholders could form the basis for this new governance structure.

In addition to these governance changes, tighter operation, with more efficient direction and end-product follow through, will also be necessary to ameliorate frustration among some participants. In terms of communication, the Compact will need to be more aggressive and disciplined about communicating both its strengths and limitations to all stakeholders. The Compact will need to continue to improve and streamline communication with participants, investing in infrastructure and participant data management. Such investments will allow the Compact Office to rationalize its mailing lists and to understand and respond more effectively to participant expectations. The Compact also needs to base recruitment and retention on a clear articulation of the distinctive value it offers, rather than attempting to project a different face to different constituents. A public elucidation of the Compact's specific role will allow it to ameliorate the frustrations of divergent and unmet expectations.

DEVELOP LOCAL NETWORKS

The impact assessment identified the proliferation of local networks as a crucial development from the Compact's experimental phase. With 43 networks, 33 in developing countries, the Compact has leveraged the credibility and convening power of the United Nations to create a unique asset. Participants repeatedly point to locally-driven initiatives as the most impactful Compact activities they have seen.

As the Compact transitions from building its networks to leveraging them more effectively, the nexus of overall activity will necessarily shift from the Global Compact Office to country and regional networks. While, to date, it has provided as-needed support to networks using tightly constrained central resources, the Compact Office should shift to providing more structured, systematic guidance and support. Furthermore, this process should build on the recent introduction of guidelines for networks. A regional management system could foster local creativity and ownership, while drawing each local network into a stronger

community, facilitating sharing and providing a more effective interface with the central Compact Office.

BUILD ON UN COLLABORATION

The Global Compact has taken on an important influencing role in the broader move to promote UN collaboration, both with business and between UN agencies. Many companies see the Global Compact as an entry-point to accessing the broader UN system and the Compact has formally involved five UN agencies in an innovative, if at times contentious, partnership. While secondary to the Compact's main objectives, the ability to influence the UN through the example of its efficient and collaborative action is an important asset that the Compact can build on to greater effect in its next phase.

To this end, the Compact will need to continue its more transparent communication with partner agencies and, more importantly, formalize the role of UN partners in administering the Compact's programs, especially the local networks. After a rocky start, the Global Compact Office has become more proactive in managing communications with UN partners. Improved communication, while essential, will not, in itself, smooth over the inherent tensions that the partners' divergent agendas bring to the collaboration. Especially as the Compact attempts to leverage its local networks more effectively and to build on the rich experience in instigating partnership projects, ensuring appropriate participation and support from agency partners will be essential. The Global Compact Office will need to formalize the roles, responsibility and authority of the partners in the Compact and ensure their buy-in to a new vision. In addition to ensuring effective operations in local networks, such collaboration could also potentially come to symbolize a powerful example of the potential of UN reform.

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Four years after its inception, the Global Compact has established itself as an important voice in the corporate citizenship chorus. With its solid roster of participants and dynamic local networks, the Global Compact is well-placed to provide meaningful impetus for corporate change and to promote inclusive globalization by catalyzing collaboration among companies, the UN, civil society and governments.

Despite some frustration, most participants recognize the Global Compact's potential and are excited about the impact that a more targeted and decentralized Compact could produce. To realize its potential, the Global Compact will need to increase the value of participation with targeted business-oriented engagement mechanisms, robust local networks, and effective communication and collaboration that meet the expectations of all participants and partners. Such strategic focus will allow the Compact to evolve from its entrepreneurial phase, characterized by a focus on participant recruitment and experimentation, to a phase of sustained growth in which the Compact will leverages its assets to drive impact through its activities.

Methodology

The project included three major types of analysis: stakeholder interviews, a web-based survey of all Global Compact participants and extensive analysis of secondary resources and internal documents.

INTERVIEWS

The McKinsey team conducted a total of 59 one-on-one interviews[6], either over the telephone or face-to-face. The table below shows the breakdown of the interviews we conducted. Typically, they lasted 45 minutes to one hour. The interviews were confidential and any quotes of paraphrases used were not attributed to individual people or organizations.

To ensure systematic coverage of important topics, the team used a standardized interview guide, which we adapted throughout the study to keep step with emerging findings.

Breakdown of organizations interviewed

		Number of interviews conducted
By geography	Europe	24
	North America	11
	South America	3
	Africa	2
	Asia	2
	Australia	1
By stakeholder group	Companies	20
	Global Compact Office	11
	NGOs	7
	Governments and multilaterals	6
	CSR organizations	5
	Core UN Agencies	5
	Networks	3
	International labor	2

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[6] A further 17 organizations were contacted but unable to arrange an interview.

The team interviewed supporters and critics of the Global Compact and representatives from all stakeholder categories and geographies.

SURVEY

1,711 individuals[7] on the Global Compact email database received an e-mail containing a link to a survey website and a unique password with which to log on. Responses were collected over the next month with a reminder e-mail sent out after two weeks to those contacts from whom no reply had been received to date.

The survey contained a total of 53 questions in English, of which companies were asked to respond to 44, and NGOs and labor organizations were asked to reply to 35. A subset of the questions was mandatory.

The complexity of the survey's functionality was kept to a minimum to enable participation from users with relatively low bandwidth capabilities. Similarly, the unique password allocated to each respondent allowed respondents to save their submission partway through and continue later. The survey was confidential with McKinsey only handling the raw data. Results are only shown in aggregated format.

We received 399 complete and 82 incomplete responses; the latter were not used in the final analysis. Of the 1,711 e-mails sent out, approximately 200 were undeliverable and approximately 100 generated out-of-office replies. Taking this into account the response rate for complete surveys was approximately 30 percent

As some organizations were sent multiple invitations to the survey, one response was selected per organization for the statistical analysis; this avoids over-representation of the views of any one organization. This eliminated a further 29 complete responses. Responses from UN Agencies and labor organizations were collected separately and filtered out from the other responses. The numbers of replies from these two categories were too low to enable statistical analysis.

OTHER ANALYSES

Other analyses included collation and analysis of Global Compact documentation and databases, McKinsey research and public information from the Internet.

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[7] The 1,711 contacts were generated from the Global Compact participant database.

Local Networks

BACKGROUND

To date, the development of national networks has been an almost entirely organic process. While the Global Compact Office has proactively launched the Global Compact within 43 countries through a launch event, intended to raise the public profile of the Global Compact at a national level, the establishment of local country networks has mainly been led by local organizations and individuals, less than by the Global Compact Office.

DEFINITIONS

This organic and unconstrained approach to network development has resulted in a large array of network structures currently operating under the banner of the Global Compact. These range from truly multi-stakeholder networks to networks consisting entirely of companies, some focused solely around one or two partnerships projects (for example, between UN agencies and companies). Some countries have multiple regional networks. The origin of these networks also varies widely. While a Global Compact country launch is the typical pre-requisite, the driving party in establishing some kind of Global Compact presence has varied widely. Network promoters have included businesses and business associations, NGOs, academics, and governments. Many other networks (particularly in developing countries) have been established by UN agencies, such as the UNDP or ILO.

Some networks are essentially replicas of the global Global Compact system. These are multi-stakeholder – involving local UN agencies, companies, civil society organizations, labor and governments – and run smaller-scale events that follow the design of global Global Compact meetings such as policy dialogues and learning fora to develop and share case studies. Some local networks even develop their own guides and materials in the local language(s) to assist companies in implementing the Global Compact's principles. As far as the Global Compact Office is aware, the majority of networks (29) run activities on a regular basis. Partnership activities as well as local dialogues on the principles are two of the most common activities engaged in by the networks.

ASSETS

The primary assets of the local networks are their local presence, their focus on implementation and their flexibility. Being "on the ground" allows local networks to convene more frequent, local dialogue amongst companies (and sometimes other organizations) about how to implement the nine principles than the Global Compact Office can generate at a global level. Most networks are also more focused on the implementation of the principles. As one network manager reported, "We are really concerned about one thing: Are companies implementing the nine principles or not?" Local networks are also able to convene meetings that result in more targeted problem solving and solution sharing. Through local dialogue, the networks can address local factors — such as culture, demography, business-related legislation, even language — that color the challenge of implementing the principles.

CHALLENGES

The diversity in make-up, goals and operations of many of the networks, and the current reliance on the Global Compact Office as a hub of communication, currently limit the network structure from realizing its potential as the Global Compact's backbone. While local networks must remain inherently flexible to accommodate the vagaries of local business and social conditions, many networks currently fail to replicate the fundamental model of the Global Compact in that they do not adopt an inclusive, multi-stakeholder approach. Only five percent of networks engage the full range of non-UN stakeholders (i.e., NGOs, labor, companies and government), with 58 percent of networks having only one or two stakeholder groups represented. Companies are the most likely single party player to be involved.

This exclusion in many networks has led some, most notably labor groups, to express their discontent at being "left out of the process." If one accepts the inherent benefits of a multi-stakeholder approach, then it is also clear that some of these local networks are perhaps not being as effective as they could be in both developing and implementing solutions. A coordinator of network that only includes companies and some professional bodies explained that NGOs and labor organizations have not been invited to join because, "We would like to involve labor at some stage, but we wanted to start with companies first, to give us a chance to consolidate, before changing the nature of discussions at later stages."

Currently, local networks largely rely on the Global Compact Office as the primary hub for communication of good-practice. While some networks have formed

regional or linguistic affiliations (there is direct cooperation between the French and Spanish networks, a Spanish speakers network is emerging, and the Indian, Pakistan, Filipino, and Thai networks communicate on a semi-regular basis), most networks do not have reliable means of tapping into this global community. The Global Compact Office convened a network leaders meeting, in Bern in June 2003, an initiative well-received by networks as an opportunity to share best practice.

Among the few networks interviewed, concern about communication was a dominant theme. The limited capacity of the Global Compact Office staff (three in total dedicated to networks) makes maintaining an active, inclusive dialogue on both strategic and specific changes (such as the inclusion of a 10th principle, or the changes in reporting) difficult at best. While network representatives acknowledge these limitations, they express frustration at their inability to fulfill their responsibility to their members to act as informed members of the Global Compact community. For example, one interview noted, "Companies are still not implementing the nine principles, how are they going to get to the 10th principle? It's as if we're running with different revolutions, and at times the New York office seems very far away." Another network official expressed similar frustration at the confusing interactions with the Compact Office: "We were recently asked to accelerate responses to the Summit, but we don't know who was invited – so who do we call?"

A regional support structure would be one simple way to stimulate more effective communication, not only between parties at the global and local levels, but also amongst local networks.