

## Global Compact Governance: Why Context Matters

Ever since its launch in 2000, governance of the Global Compact has been shaped by its underlying institutional and operational context. The voluntary and demand driven nature of the initiative calls for a multi-centric governance framework enabling participant ownership, supporting accountability mechanisms, and advancing intergovernmental oversight.

The adopted network-based governance framework, which in part is still evolving, stands in contrast to hierarchical and centralized governance arrangements. Network-based governance implies that the authority to govern is decentralized – no entity by itself can change the way the initiative works. Global Compact governance is exercised through five entities (i.e. Board, Global Compact Office, Inter-Agency Team, Local Networks, and the recently added Donor Group) as well as two convening platforms (i.e. the Annual Local Networks Forum and the tri-annual Global Compact Leaders Summit). The resulting governance framework is tailored to the specific needs of the initiative. Above all, it reflects and reinforces the network-based steering mode of the Global Compact *itself*.

Understanding how Global Compact governance is exercised, and why it is exercised in this particular way, requires appreciating (a) the *institutional context* in which the initiative is embedded, (b) its underlying *operational context*, and (c) the changing *context of sustainability itself*. These three contextual dimensions of Global Compact governance have evolved significantly over the last decade and thus need to be vetted against their historic background.

### Institutional Context Shaping Governance

From its inception, the differentiating factor underlying the Global Compact was its affiliation with the United Nations system. While the Global Compact was initiated directly by the former Secretary-General, intergovernmental support developed in an incremental, yet delayed, manner. The initiating speech (delivered at the *World Economic Forum* in Davos in 1999) sparked interest among a variety of parties and hence was translated into an institutional innovation which aimed at deepening the interdependencies between the United Nations, the business community, NGOs, and labor. Understood in this way, the Davos speech reflected an important “speech-act” (i.e. a performative utterance which induced action among a wide array of stakeholders). With Secretary-General Ban’s tenure starting in 2007 and him chairing the Global Compact Leaders Summit in the same year, the Global Compact moved into its next phase.

As the initiative gained intergovernmental support, it acquired a political license to operate. Political support acts as an enabling condition for advancing and deepening the relationship between the various parties involved. A series of consecutive General Assembly resolutions entitled “Towards Global Partnerships” (latest 2010: A/RES/64/223) have recognized the vital role of the Global Compact Office in strategically developing the capacity of the United Nations to collaborate with the private sector.

Governments have provided essential financial support to operationalize the initiative and to build up a stable administrative infrastructure. The Global Compact increasingly needs to reconcile scale of participation and implementation quality, both of which require a range of strategic investments and hence sustained financial support by Governments. Reflecting the vital function of donors, the Global Compact explicitly recognized and upgraded the role of the “Global Compact Donor Group” within the overall governance framework in 2008. The establishment of the Donor Group gives Governments a stronger say in the overall development of the initiative and allows for regular updates on the use of funds. Most importantly, however, regular donor meetings allow for sound financial planning and help to align monetary needs with continued growth. The Donor Group is complemented by the informal and self-organized “Friends of the Global Compact Group” – an open group of representatives of Member States that meets regularly (three to four times per

year) to keep abreast of developments and plans associated with the initiative. Although the Friends Group is not explicitly anchored within the governance framework, it provides essential operational and political guidance and support.

### **Operational Context Shaping Governance**

Implementing the idea underlying the Global Compact requires more than government legitimacy. Because of the initiative's voluntary and multi-stakeholder nature, legitimacy cannot exclusively rest on a political mandate. Participants' ongoing implementation efforts also create legitimacy in the eyes of key interested parties such as investors, educators, and civil society organizations. Hence, the operational context of the Global Compact is of significant importance in the context of governance. The operational context has shaped governance in a variety of ways.

Governance in the Context of a Multi-Level Initiative: The present governance framework reflects the multi-level nature of the operational context. From its inception, the Global Compact blended a concern for global problems and institutional change with capacity building on the local level. The inclusion of Local Networks into governance is crucial in this respect, as it empowers local actors and thus enables contextualized steering. Over time, Local Networks grew in a largely organic fashion, paralleling and reinforcing the growth of the overall initiative. So far, 96 established and emerging Networks in all regions of the world help to embed the Global Compact's agenda within local contexts.

While Local Networks have built capacity to self-govern their operations, inter-network coordination and collaboration emerged through the Annual Local Networks Forum and a variety of regional meetings. From a loose coalition of single entities, Networks have now evolved into an inter-networking group which forms an important pillar of the governance framework. Networks are expected to meet a minimum set of criteria (e.g. annual reporting of activities), which have been developed over time and through consensus, and thus regularly liaise with other governance entities such as the Global Compact Office. The further development of Local Networks is essential when it comes to the future of the Global Compact: system-wide change (e.g. change of institutionalized practices in financial markets and education) requires transformative activities on the local level. Involving local actors into the governance framework allows integrating contextualized actions on the ground into a coherent framework for institutional change.

Governance in the Context of a Multi-Centric Initiative: The Global Compact was built upon the belief that implementation does *not* happen in a vacuum. Facilitating and advancing the ten Principles as well as broader UN goals rests on the joint production of issue-specific guidance and collective capacity building on the local and global level. The resulting public-private nature of the initiative is well reflected in the current governance framework. While the Global Compact is a business-led initiative (as businesses have the primary responsibility for implementation), it also promotes interactions between firms and other actors (e.g. from the UN system, civil society and labor). From its inception, the Global Compact's value proposition included access to a network of likeminded organizations from different domains. The basic set-up of governance entities such as the Board and Local Networks reflect this multi-stakeholder nature, while the Local Networks Forum and the Leaders Summit are critical to gather feedback from a wide array of parties.

Existing standing working groups also reflect the multi-centric nature of governance. So far, the Global Compact has set up working groups in five areas: (i) human rights, (ii) labor rights, (iii) anti-corruption, (iv) responsible business in conflict areas, and (v) supply chain management. Covering business and non-business participants, these groups advance the respective issue area within the Global Compact by providing advice on how to enhance the implementation of the Principles. More specifically, working groups focus on (among other things): proposing specific ways and methodologies to advance action in support of the Global Compact Principles, offering

advice on the development of tools and guidance materials, and suggesting ways to set up collective action on the global and local level.

Governance in the Context of a Demand-Driven Initiative: Implementation is backed by participants' voluntary commitment. One important characteristic of voluntary initiatives like the Global Compact is their demand-driven nature – i.e. participants need to endorse changes to the strategic and operational functioning of the initiative. Sustained support by all involved parties is particularly vital when considering that the desired future scale of the Global Compact depends on opportunity-led actions and the dissemination of bottom-up innovations, both of which depend on participant buy-in. Contrasting a traditional "command and control"-type of governance, the demand-driven nature calls for giving those parties who are willing and able to drive implementation a voice in governance. However, participant ownership also requires installing safeguards protecting the Global Compact from capture by any specific group of actors. The multi-stakeholder nature of governance entities is crucial in this regard, as it allows for the inclusion of voices from multiple domains and backgrounds.

The voluntary and business-led character of the Global Compact is also reflected by the two related global issue platforms: *Caring for Climate* and the *CEO Water Mandate*. Both are complementary engagement opportunities for business participants wishing to demonstrate leadership regarding climate change and water sustainability, respectively. Chief executives of participating companies need to formally endorse involvement in these platforms. Both platforms have a separate governance structure and also discrete reporting requirements calling on endorsers to regularly communicate with their stakeholders on implementation progress.

Governance and Implementation Accountability: Global Compact governance is significantly shaped by the need to complement organizations' commitment to the initiative's underlying goals with ample accountability measures. Holding participants accountable for not disclosing their actions in support the Global Compact is crucial, both to protect the affiliated UN brand and to also advance implementation itself. Strategic direction setting by the Board and the related operational actions of the Global Compact Office created integrity measures such as the mandatory Communication on Progress (COP) reporting framework as well as a logo and branding policy. The COP requirement makes clear that those business participants who have been non-communicating for more than one year are expelled from the initiative. Up to now, more than 2,000 firms have been expelled for failure to report on implementation progress. The mandatory reporting requirement not only enhances accountability and transparency, but also allows civil society, media and the public at large to constantly follow and comment on the engagement of companies in the Global Compact. Such "social vetting" processes are crucial as they (a) can stimulate a public discourse whenever participants are felt to be not in line with their commitment to the Global Compact and (b) can also help to publicly identify and reward innovative business practices.

Recent attempts to further differentiate participants based on implementation quality provide opportunities for developing the governance framework in the future. As of 2011, the Global Compact differentiates participants based on a self-assessment of COP content. While "active" participants meet all minimum COP requirements, firms can also self-declare to meet the conditions of the "advanced" level. The increased scope of advanced level reports allows for benchmarking best practices and developing effective management systems on sustainability-related issues. Differentiation can have important consequences for Global Compact governance: Local Networks, for instance, can acknowledge performance differences by providing targeted incentives for high-performers to sustain their efforts, while allowing low-performing participants to catch up. The bottom line is that quantity of participants and implementation quality are mutually reinforcing. More participants not only create more actions, but increased implementation quality also extends legitimacy and hence attracts further participants.

Governance in the Context of Institutional Innovation: The flexible and multi-centric nature of the present governance framework enables institutional innovation. Over time, the Global Compact has acted as a catalyst and incubator for a variety of important initiatives, which have shaped the corporate sustainability landscape. For instance, the *Principles for Responsible Investment* (PRI), set up in partnership with the UNEP Finance Initiative, emerged as the leading platform for investors to incorporate environmental, social and corporate governance (ESG) issues into their decisions. Likewise, the *Principles for Responsible Management Education* (PRME) represent the first globally recognized framework to integrate corporate sustainability into university curricula. Creating and sustaining such institutional innovations is a key benefit of the Global Compact's governance framework. Innovations cannot be mandated; they require flexibility and "space" for testing new ideas and establishing novel behavioral patterns.

### **Context of Sustainability Movement Shaping Governance**

The context of the global sustainability movement impacts governance in at least two essential ways. First, the Global Compact was born into an era where dialogue and learning dominated the public discourse on sustainable business. Over the last twelve years, the initiative significantly shaped this discourse by producing consensus-based solutions and facilitating knowledge exchange among its participants. While dialogue and learning remain relevant, the Global Compact is now in a position to capitalize on past achievements by putting more emphasis on bottom-up transformative actions. This focus on actions is in line with the rapid development and professionalization of the sustainability movement itself. For instance, non-financial reporting and public benchmarking have improved significantly over the last decade and now allow for sustainability performance to be better measured and managed. Moving from dialogue and learning to an action-focused paradigm puts new demands on governance. Actions only have a lasting impact on social and environmental problems when they are coordinated and sustained. Although existing global issue platforms (e.g. on water and climate) allow for the coordination of actions, these platforms need to be integrated into the overall Global Compact governance framework..

Second, the changing context of the global sustainability movement requires "governance flexibility" in the sense that emerging debates need to be swiftly incorporated into the initiative. Because of its network-based governance framework, the Global Compact is well positioned in this regard. While in the early days of the initiative the public discourse was more confrontational and driven by pressure groups and activist networks, a more integrated perspective on sustainability, balancing social and environmental aspects, emerged over time. The built-in flexibility of the present governance framework leaves sufficient room for self-determination by actors and hence increases the speed of responding to emerging issues. Considering that the interconnectedness of some of the underlying problems (e.g. the effects of global warming on food security and poverty) is not yet fully explored, a flexible governance framework is both necessary and timely.

To conclude, *context matters* when thinking about Global Compact governance. As the Global Compact blends public and private actors, it also combines legitimacy from both spheres. While public legitimacy rests on intergovernmental support, private legitimacy relates to participants' implementation accountability. Considering this environment, the Global Compact does not work in a linear top-down fashion in which policies are first developed and then pushed down for implementation. The governance framework was (and still is) significantly shaped by the initiative's institutional and operational context as well as the context of the larger sustainability movement that the Global Compact is an important part of. Contexts, however, change and so do the needs of governance (in this sense *history matters* as well).