TEACHING PRIVATE GOVERNANCE:
A critical analysis of the UN Global Compact

by

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B.A., Queen's University, 2003

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF ARTS

in

THE FACULTY OF GRADUATE STUDIES

(Political Science)

THE UNIVERSITY OF BRITISH COLUMBIA

April 2006

ABSTRACT

The central purpose of this thesis is to explore the creation and potential role of the UN Global Compact. Conceptualised as a 'multi-stakeholder learning network' with representatives from both the public and private sector, the Global Compact represents a new institutional model that does not fit the traditional categories of international organisations. The problem that emerges is how we understand this type of collective action and its significance is for global governance.

The key theoretical question is what direct and indirect factors have influenced the shifts in global governance towards the development of non-traditional governance mechanisms like the Global Compact? The assertion here is that the dual processes of privatisation and corporate social responsibility have legitimised the transfer of material and moral authority to the private sector. This enhanced position has led to the trend towards cooperative approaches between formerly oppositional groups and in a cyclical fashion these regimes have legitimised private governance.

Environmental factors have clearly impacted the design and intention of the Global Compact. The network's directional and operational features, including broad, non-binding principles and an emphasis on learning and information-sharing, reflect a distinct focus within the network on *process* rather than outcome-oriented goals. It is argued here that the formation of a voluntary, self-regulative, and non-hierarchical model of global governance reflects the institutional limitations and a 'spirit of cooperation' imbedded in the network.

As a product of both environmental constraints and normative expectations, the effects of the Global Compact formation are difficult to determine objectively. It will be shown here however, that the potential implications at the micro-level are based on the ability to affect individual firm behaviour or assessment of interest, and at the macro-level come from the Compact's contribution to norm diffusion, the nature of interaction between actors, and the legitimised transfer of authority to the private sector. The final analysis that emerges from this study is that the long-term significance of the UN Global Compact lies in the inclusive and process-oriented design of the network as both an indicator and a contributor to the changes in global governance.

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ACKNOWLEDGEMENTS

The success of this thesis is a reflection of the continued support of many people. I would like to thank many of the faculty in the department of Political Science for their academic support. In particular I would like to mention Peter Dauvergne and Richard Price who have both offered their guidance and expertise in the development of this project. Most of all, it has been the help and support from my family and friends that has truly made this whole process possible. I could not have survived this without them. Except for Mark Cofman who has only brought me grief.

CHAPTER 1: Overview

Introduction

From 30 November to 1 December 2005, almost 500 corporate leaders, policy-makers and civil society representatives from around the world gathered in Shanghai for "the largest ever high-level corporate responsibility conference in China,"[1] marking the fifth operational year of the United Nations Global Compact. The subject of this Global Compact Summit—'Building Alliances for a Sustainable Global Economy'—is indicative of the overarching mission of the multi-stakeholder network as well as a reflection of the key institutional features. Formed to promote UN and 'corporate social responsibility' principles, the Compact seeks to influence future business behaviour through the connections made within this voluntary cooperative network. With such lofty intentions, the Compact has been imbued with both high expectations and a high level of scepticism from observers throughout its five-year lifespan. A normative evaluation of the Global Compact, however, does not necessarily reveal the significance of the initiative. As this study will show, it is the formation, design, and potential implications of this new institutional model that is of principal importance: the Global Compact's relevance may lie less in its practical impact than in what it indicates about the shifting institutional environment.

The Global Compact initiative, spearheaded in 1999 by UN Secretary-General Kofi Annan and adopted by the UN General Assembly in 2000, outlined nine principles under the three headings of human rights, labour, and the environment. Upon formation, the GC actively invited companies of all sizes and from all regions[2] to voluntarily sign up

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[1] Taken from the Global Compact website; http://www.unglobalcompact.org/NewsAndEvents/event_archives/global_compact_summit.html

[2] The only excluded business group in the Global Compact are 'micro companies' that have less than ten direct employees. Although they cannot qualify as 'participating companies, the GC has encouraged them

with an agreement to abide by these broad guidelines. Although the GC was primarily created to affect private sector operations, the network sought to include representatives from all sectors, including business associations, UN bodies, non-governmental organisations (NGOs), civil society, academia, and observers from national governments. The Compact stands out threefold as: a) an explicit acknowledgement on the part of the international community of the central role that business has come to occupy; b) an attempt to design an acceptable international standard of behaviour for businesses to follow; and c) an example of a self-regulative and private authority mechanism that has characterised a trend in the international economic environment. It is clear that as a loose horizontal network that brings oppositional groups under the UN banner, the Global Compact differs significantly from traditional international organisation models. The problem that emerges is why this type of collective action has emerged and what the significance is for global governance.

Importance of the Problem

In examining the Global Compact as a new institutional model conceptualised as a 'multi-stakeholder learning network' that has sought to incorporate business and civil society, this paper will seek to contribute to a growing literature about shifts in global governance. Specifically, it is the recent trend toward private governance or some form of public-private cooperative governance—reflected in the design of the Compact—that is crucial and functions as both a cause and effect of the network's formation. The first assumption that needs to be established is the relevance of these new models of collective action that include or operate within the private sector. What is the importance of private governance, and why does it matter for international politics?

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to keep informed the network's activities via the website as well as become involved in their country networks, http://www.unglobalcompact.org/HowToParticipate/index.html

A strictly empirical assessment of private sector institutional relevance in international relations relies on the observable increase in the number, size and visibility of business organisations as well as the vast economic wealth that these groups embody. Although groups of private interests have existed for as long as trade and private capital have,[3] the notable change that marks the present period is the rise of business groups comprised of members spanning across international borders and seeking to hold influence on the international stage similar to that which national business groups have historically had within their country of origin.

Speaking to the question of why private sector regimes matter, Cutler, Haufler and Porter in the introduction to their edited volume on private authority in international affairs, stress four primary factors that indicate the importance of international cooperation among firms. The authors suggest that within private sector regimes: a) participating firms control huge resources (including capital technology, employment, natural resources); b) firms deploy these resources for competition and cooperation; c) multinational corporations play a large hand in establishing norms, practices and rules in the global economy; and d) cooperation between firms can become authoritative and government-like, challenging the traditional character of political authority.[4] This list is comprised of both empirical and theoretical evaluations of relevance, and offers insight into why the inclusion of private sector participants in the Global Compact is the most significant component of the initiative.

Despite the empirical observations about the growing number of business alliances, there is however, no necessary causal connection between group formation and

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[3] According to some analysts the origins of modern business associations can be traced from the craft and trade guilds that affected national economies in the past. Clarence E. Bonnet, "The Evolution of Business Groupings," *Annals of the American Academy of Political and Social Science*, (179, May 1935), 2-3

[4] Claire Cutler, Virginia Haufler and Tony Porter, "Private Authority and International Affairs", in Cutler, Haufler and Porter (eds) *Private Authority and International Affairs*, (Albany: State University of New York Press, 1999), 6

significance. The mere existence of an organisation being tantamount to an 'international actor' has never satisfied theorists studying in the field of international relations, and by extension simply creating the Global Compact does not guarantee its relevance. The Compact has had considerable growth in numbers of participants over the past four years, starting from a few hundred business participants and growing to currently more than 2000. Although with the total number of transnational corporations worldwide currently exceeding 65,000, the number of participants may not be the best indicator of the GC's relevance. What is more important for understanding the significance of the Compact is identifying the *role* that the network has sought for itself as a forum for learning, discussion and information-sharing among participants. It is not simply the existence of the private sector within institutions that determine their political significance, it is the dynamic *interaction* between these groups and the international political and economic environment within which they function that provides the most interesting puzzle for political science.

Chapter Outline

Analysis of the phenomenon of an increasingly organised private sector on international politics has come primarily in two forms: theoretical work on the causes of private governance and the changes it has induced, and empirical case studies on how different forms of business associations have affected international policy or practice. These separate accounts of private governance are mutually re-enforcing by highlighting both the broad and specific factors that lead to the development of such regimes and what consequences can be inferred. This examination of the Global Compact, less focused on observable outcomes than other case studies, relies even more heavily on theoretical analysis in order to understand the creation, design and impact of this model of public-private cooperative governance. While the entirety of this thesis draws upon theories and analytical assessments, Chapter 2 will lay out the overarching theoretical frameworks that best explain the environmental causal forces behind the formation of the Global Compact.

The central theoretical question in understanding the nature of private sector collective action regimes is: what direct and indirect factors have influenced the shifts in global governance toward the development of non-traditional governance mechanisms? Essentially, the theories presented here all seek to identify the forces that influenced the changes in private sector behaviour, both in terms of regime development and individual action. The question of institutional emergence has been investigated extensively within the field of international relations, and an overview of these organisational theories help explain why competitive actors participate in cooperative regimes. The ontological focus within these theories on states and inter-state organisations, however, is not directly applicable to the Global Compact or other associations of private actors. While similar group dynamics may occur in the private sector, the transfer of authority from traditional inter-state organisations to new forms of global governance is not wholly explained by organisational theories of states.

Examining the UN Global Compact as a new form of global governance better explains the hybrid public-private institution. Based on a non-enforcement model, the GC and other private sector regimes more appropriately fit the description of James Rosenau's overlapping 'spheres of authority' rather than international regulatory bodies. The emphasis among theorists on *process* over outcome in explaining the role of private governance, how it has acquired authority and how it affects behaviour of actors, is important for understanding how the Compact seeks to change the business environment through ideational channels. The GC's focus is clearly on process, manifested in the language of the network's aims to *mainstream* the ten principles and to *catalyse action* in support of UN goals[5], as well as in the major functions relating to dialogue, learning, and information-sharing.

Outlining the movement among private actors toward cooperative arrangements in order to assume a governance role brings up the question of motivations. Theories of self-regulation will be presented in chapter two as an agency-driven framework to supplement the structural-environmental theories of why groups emerge. Although the Global Compact does not resemble a self-regulative body driven exclusively by businesses, because of its overt attempt to appeal to business interests and the reliance on firms to self-regulate, the GC relates to recent analyses of self-regulation. There are a number of material motivations that encourage the private sector to take pre-emptive self-regulative action, but without offering tangible benefits participants in the Compact must be deriving non-material advantages of association. By acting as a site of legitimacy, the Global Compact has arguably set itself as a middle-man in the transfer of authority to its participant firms. The assumed and accepted legitimacy of international institutions has affected the perception of interest among private actors. The overarching lesson taken from the overview of relevant theories, chiefly based on a constructivist argument, is that the development of private sector regimes and the Global Compact specifically has largely been a result of the institutional environment that has created incentives for individual actors to operate within a group.

Following this theoretical background, chapter three will provide a description of the Global Compact, the dominant components and functions of the network. As a self-declared 'learning forum', in which the most important functions are carried out through voluntary steps taken by companies. Despite this relatively weak framework, the Compact operates as more than an ad hoc discussion and using the accepted definition of

[5] These are the two objectives listed on the Global Compact website, www.unglobalcompact.org

a regime as "sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge"[6] the GC can be appropriately classified as a loosely institutionalised regime. Categorizing the Global Compact as a specific institutional type proves to be difficult, as the network encompasses characteristics from a variety of designs and focuses on process not policy. Although the initiative came from the UN Secretary-General, falls under the UN umbrella, and includes principles taken from large international organisations, the GC does not operate as an inter-state organisation. By highlighting the organisational elements taken from different regime types, chapter three will show how the Compact is a unique model of global governance. Based on the logic of a network of collaborating equals, the UN Global Compact is conceptualised here as a 'multi-stakeholder learning network'[7].

Chapter four will build upon the Global Compact's institutional significance and explore the causal factors that influenced the creation of this 'network of networks'[8]. The historical context within which the Compact was formed has been the chief influence on both the creation and design of the network. By applying theories presented in the second chapter, the assertion here is that the dual forces of privatisation and corporate social responsibility (CSR) have legitimised the transfer of material and moral authority to the private sector. This enhanced position has fostered the growth of cooperative approaches between corporations and non-governmental organisations, which in turn legitimised the role of private governance.

The design of the Global Compact, reliant on the open reporting and self-regulation of participant firms, has been affected by the minimalist nature of the corporate

[6] This definition, widely accepted in international relations theory, is taken from Stephen Krasner, "Structural Changes and Regime Consequences: Regimes as Intervening Variables," *International Organization*, (36:2, Spring 1982)

[7] This definition is adapted from John Ruggie's assessment of the Global Compact.

[8] This self-description is taken from the Global Compact website.

social responsibility norm. Similarly, by directing membership primarily at corporate partners and seeking to establish a universal forum for businesses, the Global Compact has been criticised for being inherently conservative and operating as a lowest common denominator of business standards. This institutional choice for width over depth within the GC, however, reflects the inclusive ideals to which the network, and the UN aspire. It is argued here that the specific design of the UN Global Compact is explained by existing institutional limitations and the 'spirit of cooperation' imbedded in the initiative.

As suggested by theories of private governance, the development of the Global Compact was highly influenced by its environmental context, which produced certain institutional limitations on the design of the network. The biggest constraint was based on the recognition that the Compact could not be a body for regulation. Past attempts at international codes of conduct had failed, and with the increasing economic and political power of corporations, it was clear that any design would have to be acceptable to business. This limitation has been interpreted as both a disadvantage and an advantage by observers. Despite the normative assessment, it is clear that the internal direction within the key actors complimented this particular design of the Compact. The UN had already begun to establish more alliances with business, and Kofi Annan in particular had used his leadership role as UN Secretary-General to advance an agenda of partnership with the private sector. This was further enhanced by leadership within corporations and NGOs that was encouraging cooperative relations. This 'spirit of cooperation' largely influenced the decision to support a 'learning network' and undermined the allegations that the GC was a second-best option to regulation.

As an outcome of both environmental constraints and normative expectations, the effects of the Global Compact formation are difficult to determine objectively. Judgments of the network tend to be polarised over the *intent* of the network rather than the effects, largely because at this point there are few conclusive results to draw upon. The fact that the network has created such controversy indicates a boldness within the move to bring together traditionally opposing groups under the banner of responsible action for business. The final chapter in this thesis will explore some of the practical and theoretical implications of the Global Compact, and lay the groundwork for future studies of impact.

As a result of trying to appeal to such a large audience, the Global Compact has been set up as a skeleton of responsible practices. This has prompted criticism from those who claim the initiative does not go far enough to initiate change but rather allows for companies to use the network to match their own needs. The lack of enforcement and accountability measures within the GC's framework leads to a foreseeable inability for the network to affect individual firm behaviour, while still offering them legitimacy for participation. The counter-argument to this is that GC principles can affect firms' identification of interest, which will affect long-term changes in action. In many ways this debates resonates with ongoing disputes within the field of international relations about the affect of norms on behaviour.

In addition to the potential affect on individual firms' behaviour, the Global Compact may contribute to macro-level changes in the international political economy. These possible areas of impact are: a) structuring the process of corporate social responsibility norm diffusion; b) changing the nature of interaction between firms, NGOs and international organisations; and c) fuelling the transfer of authority to private actors. It is asserted here that the role of the Global Compact within these institutional changes is more important than the micro-level effects on actors. Through its position as moral authority in corporate citizenship issues, the GC creates incentives for participation and an institutional space for cooperation among formerly oppositional groups. The non-hierarchical structure of the network may be a result of external factors, however by setting up this design the Compact will potentially *affect* its environment. The most significant consequence of the Global Compact in light of theories of private governance is the implicit transfer of authority that the network condones. By changing the nature of interactions between adversarial groups, the Compact has arguably enhanced the legitimacy of firms to act as self-regulating actors. In this way, the UN appears to not only be recognising the increasing strength of the private sector, but actively encouraging that growth.

Based on a practical consideration of the inability for the international community to externally regulate business behaviour, the Global Compact seems to reflect a realist world-view, stressing the subordination of institutions to material power. This recognition of institutional limitations has been a source of much criticism for the Compact, as many have claimed the network's acceptance of corporate material power and their subsequent inclusion in the UN has in fact furthered a transfer of authority to the private sector. This perspective is radically opposed by supporters of the Compact who point to the centrality of the Global Compact Office and UN bodies within the GC and emphasize the normative role of creating a multi-sector international institution designed for discussion and information-sharing of international social and environmental issues. Neither of these two positions, however, can wholly explain the formation and significance of the GC—the chief characteristic of the Compact is that it reflects *both* the material and ideational concerns of the designers. The Global Compact is a product of environmental pressures and limitations as well as an instrument intended for change led by UN principles.

An assessment of the significance of the Global Compact relies on theoretical, empirical and ultimately normative perceptions of the role of private regimes and the inclusion of private governance into international politics, a field that has been traditionally dominated by states and inter-state cooperation. Systemic changes have arguably fostered the growth of new forms of governance often through cooperation among non-state organisations, coming out of the increasing autonomy of both industry and civil society. The GC can be seen as a response to these changes aimed at facilitating dialogue among conflicting actors (NGOs and transnational corporations), as well as asserting a continued relevance for the UN to engage in and contribute to the direction taken by new forms of global governance. Understanding the emergence of the Global Compact, its intentions and functions, and an analysis of the nature of the network helps measure the significance of the Compact and its potential role in the international political economy.

CHAPTER 2: Theoretical Background

The purpose of this chapter is to present theories that will help to analyse the formation of the UN Global Compact network and explain the structural design of this new type of international governance mechanism. In the absence of specific targets against which to measure the practical results of the Compact and because a major rationale for the network is to function as a learning forum, the current institutional significance of the GC lies primarily in the *creation* of the network and what its formation indicates about the direction of global governance. Considerable emphasis within the field of international relations has been placed on the study of global governance, traditionally dominated by the focus on shifting power structures as the explanation for governance structures. The subfield of international organisation took a more in-depth look at the creation, development and impact of international institutional arrangements; yet the bulk of the research still focused on inter-state interaction and organisations as the principal governance mechanisms. Driven in part by industry leaders[9] and without the direct involvement of states the Compact is uncomfortably situated in traditional state-based models of international institutions. There is however, some application of these theoretical frameworks to the Global Compact in that much of the early debates concentrated on why organisations were formed and what they sought to achieve.

Organisational Theories

With power as the central theme of traditional international relations, much of the theories about inter-state organisations used power as the reasoning for their creation, with collective action as a result of power exertion, a reflection of power relations, or as

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[9] The composition of the Global Compact Advisory Council—the central body of the GC—indicates that business plays a significant role in the direction and statements of the network—of the 17 rotating members, 12 are industry representatives, 2 labour, and 5 civil society representatives, government representatives are given advisory status.

an attempt to constrain power.[10] There is clearly still relevance for studies of power in the current international environment, albeit with an expanded domain that includes non-governmental actors and their role in power structures. Furthermore, as many constructivist and critical theorists originally noted, there are a number of different ways that power is exercised that were overlooked in traditional international relations theories, but that have particular relevance for recent research. The notion that less overt forms of power, operating through ideational channels, can have a significant impact on outcomes represented a shift in ideology. Keohane refers to this premise as part of a series of 'reflexive theories' that, by focusing on the endogenous dynamics of learning and ideational power, offer greater possibility for understanding history and the development and changing of preferences.[11] If power is understood in this way, theories of regime formation are more applicable to private sector and non-governmental arrangements, particularly as the Global Compact is a network relying on 'soft power' pressures.

One of the crucial issues that organisational theorists grapple with is the question of preferences and why competitive actors choose to participate in cooperative regimes that seemingly diminish their autonomy and relative power. Many of these explanations employ ideas of absolute power and material gain which cannot sufficiently illustrate the reasons behind the Global Compact—an initiative that does not offer any concrete material benefits to companies that sign onto the ten principles. Reflexive and constructivist theories, however, also concerned with the question of preference formation, explore the development of ideas and how they affect interests and behaviour and reject the notion that there exists an exogenous interest that can be universally

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[10] Perceptions of how power structures cooperative mechanisms are still largely based on theoretical assumptions of how power affects behavior and whether states seek absolute or relative power.

[11] Robert O. Keohane, "International Institutions: Two Approaches," *International Studies Quarterly*, (32:4 December 1988), 390

identified and rationally pursued.[12] Instead, such theories suggest that the creation and fluctuation of interests is related to experiences, interactions with other actors, and prevailing norms affecting an actor specifically, or the system as a whole. By adding the potential for cognitive, cultural variables and other potential intervening variables to affect the projection of an actors' interest, constructivist literature undermines the linear nature of the liberal-institutionalist models of collective action and suggests reasons why profit-motivated firms would voluntarily participate in a regime without tangible benefits.

Founded on a statist world-view, most established theories from international relations are difficult to directly apply to an analysis of the current regime environment. As many theorists have recognised, there are important differences that mark this period and necessitate a new understanding of international governance mechanisms. James Rosenau, as the leading scholar for the study of global governance, put forward a theoretical framework of 'fragmegration'—referring to a dual process of fragmentation and integration of communities—that advances a new ontology of international politics.[13] Rosenau claims that the perception of regimes composed primarily of states is outdated and does not account for the changes that have occurred in the past decades that have elevated the status of non-governmental actors and organisations. Rosenau asserts that in the current international environment, states are merely "significant actors in a world marked by an increasing diffusion of authority and a corresponding diminution of hierarchy."[14] Within this theoretical perspective, the ontological units of analysis that Rosenau identifies are termed 'spheres of authority', which come in a variety of different forms. Authority, rather than residing in the traditional realm of states, is transferred in

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[12] Numerous constructivist theorists have emphasised the importance of preference-formation, particularly significant for this study, John Ruggie has been a prominent constructivist academic that has supported the formation of the Global Compact.

[13] James N. Rosenau, "Toward an Ontology for Global Governance," in Martin Hewson and Timothy J. Sinclair (eds) *Approaches to Global Governance Theory*, (New York: SUNY, 1999)

[14] Rosenau, 292

several directions: upward to transnational and supranational organisations, sideways to social movements and NGOs, and downward to subnational groups. The focus of Rosenau's theory is on governance, which he argues does not necessarily follow the logic of hierarchy and rather resembles a series of overlapping spheres of authority operating through a process composed of "mechanisms for steering social systems towards their goals."[15]

Private Governance and Authority

The theoretical assertion that the units of analysis have changed and now encompass a range of different actors, is not a new idea in international politics, however, the notion that we are experiencing changing governance structures represents an important shift in international relations theory. A number of theorists have recently built on this idea of new forms of global governance and specifically relevant for this paper are those that investigate the question of private governance regimes. Robert Faulkner, looking at the significance of private environmental governance for international relations theory, distinguishes private *governance* from *cooperation* between private actors. Faulkner uses Keohane's allegation that cooperation indicates the adjustment of individual behaviour to achieve 'mutually beneficial objectives' and is characterised by more of an ad hoc nature. Governance on the other hand, "emerges out of a context of interaction that is institutionalised and of a more permanent nature"[16] and behaviour adjusted through a process of governance is not done because of *interest*, but out of a recognition of *legitimacy*. Faulkner claims that the growth of private environmental governance (PEG), relates to twentieth century processes of economic globalisation, and

[15] Rosenau, 295

[16] Robert Faulkner, "Private Environmental Governance and International Relations: Exploring the Links," *Global Environmental Politics*, (3:2 May 2003), 73

his overarching argument is that the rise of PEG amounts to a transformational trend in global governance.

The premise that there have been significant shifts in the processes of global governance and in particular a rise in private governance mechanisms, is becoming a widely accepted thesis in the study of international politics. In his study of global governance changes from state-centered to co-regulative approaches, Philip Pattberg identifies two broad trends that have occurred: a) the 'privatisation of regulation'; b) and the shift from confrontation to cooperation between divergent actors.[17] Drawing on earlier observations, Pattberg asserts that partnership is the new paradigm to overcome conflicts of interest and that the key transformation in global environmental regulation has been the change from public international approaches to private multi-stakeholder schemes. Pattberg's definition of private governance, as both a *process* and *outcome*, describes an 'overarching conceptual framework' in which private actors are engaged in regulating the behaviour of other stakeholders within formal and informal arrangements. Also based on the idea that there has been an increase in cooperative solutions to fill a regulative void, Faulkner states that "hybrid private and public governance emerges out of the interactions of private actors, either with the involvement of states or with the later adoption or codification, by states and/or intergovernmental organisations"[18] In this scenario, states are not the driving force, but do lend credibility and legitimacy to these projects. Faulkner recognises that 'pure' private environmental governance is rare and that most examples are 'mixed', resulting in a blurring of the boundary between the public and private spheres.

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[17] Philipp Pattberg, "The Nature of Private Environmental Governance: Preliminary Results and Future Questions" (London School of Economics and Political Science: Pending Publication)
[18] Faulkner, 76

In terms of the different types of private sector organization that has emerged with this new global governance environment, Clive Cutler, Tony Porter and Virginia Haufler outline a range of cooperative arrangements that are visible in the private sector including: a) informal industry norms and practices, which "appear to be similar responses to environmental conditions"[19]; b) coordination services firms (eg law, insurance, and consultants that coordinate activities between other firms); c) product alliances—subcontractor relationships and complementary activities such as strategic partnerships, joint ventures, and networks; d) cartels; e) business associations which encompasses both self-regulatory, standard-setting organisations and representative organisations that work with governments; and f) private regimes, which includes both formal and informal institutions. According to Pattberg, the key features that distinguish these co-regulative bodies from past arrangements are: the involvement of both NGOs and business actors; the ordering elements are based on markets *and* norms; the transcending of state-centered, territorial-based forms of politics, "thereby establishing new spaces of transnational organisation"; and the highly institutionalised nature of these networks in comparison to previously established cooperative alliances and partnerships. 20

It is the shift from separate distinct spheres of governance to overlapping spheres of influence that is particularly significant for understanding the creation of the Global Compact and why the multi-stakeholder structure was chosen. Related to the institutional foundations of the Global Compact, a number of political theorists have focused on the growth of 'private authority', both nationally and internationally. Theories of private authority in international affairs can be linked to the observable changes in global governance and similarly seek to explain the environmental context that encouraged shifts

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19 Cutler, Haufler, and Porter, (1999), 9

20 Pattberg, 1

in governance. The perceived growth in the authoritative status of the private sector is frequently cited as both a cause and effect of increased collective action between non-governmental actors. An analysis of the trend's significance is largely informed by the theoretic approach used to identify and understand authority. The meaning of 'authority' in international relations, often used interchangeably with 'power', is a highly contested concept within the field. Although there are important differences between conceptions of 'power' and 'authority', (authority generally being viewed as the operative function through which power is asserted), the theoretical logic is similar in that they imply a dual process through which power and authority is both *attained* and *exerted.*

Doris Fuchs claims that there are three 'faces' of power that roughly correspond to the major international relations theoretical perspectives: a) instrumentalist—relating to realist theories that stress the functional and material aspects of power as a force used to obtain a desired outcome; b) structuralist—linked to structural Marxism and focusing on the underlying economic structures that facilitate the power of private capital; and c) a discursive face—tied to a sociological perspective that views power as a result of relations between individuals, groups and the social system and exercised through norms, ideas, and societal institutions that grant legitimacy.[21] Fuchs elaborates on this to suggest that the private sector acts through all of these three methods. Business exerts power instrumentally through lobbying, structurally through self-regulative mechanisms and public-private partnerships that perform an agenda-setting role, and discursively through privatisation, which she refers to as the 'purchase of discursive power'[22]. The importance of this is that the application of these three avenues of power grants business a degree of legitimacy that in turn transforms the private sector into an accepted authority.

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[21] Doris Fuchs, "The Role of Business in Global Governance," in Stefan A. Schirm (ed), *New Rules for Global Markets: public and private governance in the global economy*, (New York: Palgrave Macmillan, 2004), 138
[22] Fuchs, 140

In his analysis of authority, Lonar Reith claims that the interactive dimensions of coercion, interest and legitimacy are the basis of authority.[23] Different forms of ruling can develop a mantle of authority through recognition and consent by those over whom it is exercised, a claim that fits with Rosenau's conception of governance as relational, that "its existence can only be observed when it is both exercised and complied with."[24] In a volume exploring different aspects of 'private authority and international affairs', Cutler, Haufler and Porter similarly define authority as decision-making powers over an issue area within which it is regarded as exercising that power legitimately.[25] Their argument, relating to those made about changes in global governance, is that institutions established by inter-firm cooperation can become legitimate and acquire authority from of their perceived expertise or a through a specific grant of power. Cutler, Haufler and Porter outline three situations in which private international authority is empirically visible: 1) those subject to rules and decisions made in the private sector accept them as legitimate; 2) there is a high degree of compliance with rules and decisions; or 3) private sector actors are empowered explicitly or implicitly by governments or international organisations to act in a position of authority.[26] Essentially, in order for private actors to acquire authority they must be externally validated and this need for legitimacy impacts the structural means through which actors choose to behave.

The normative analysis of authority demands an examination of the circumstances under which an individual actor or organisation is granted legitimacy. In a similar manner as Reith, Robert Keohane and Joseph Nye draw a connection between authority and legitimacy in terms of types of governance processes, and similar to Reith, hinge the

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[23] Lonar Reith, "CSR in Global Economic Governance: A comparison of the OECD Guidelines and the UN Global Compact," in Shirm (2004)

[24] Rosenau, 295

[25] Cutler, Haufler, and Porter, 5

[26] Ibid, 18

attainment of an authoritative status on the acceptance among the subjects of governance.[27] In laying out the four primary models of governance in international relations, Keohane and Nye focus on the types of accountability that operate in granting legitimacy to leading actors. For the purposes of this study, it is the reliance on reputational and market/efficiency accountability within the models related to the Global Compact (the international organisation, transnational actor, and policy network models) that reveals the dynamics operating among non-traditional international institutions.

The notion that authority is based in part on reputational accountability is widely accepted among theorists of private authority. Reputation can come from various sources in either a rationalist manner—based strictly on past economic, political and/or social performance—or through cognitive processes—that include familiarity, trust and belief in a goal or course of action. In this sense, there is a social-cognitive aspect of the concept of 'reputation' that makes constructivist theoretical explanations particularly relevant. As Keohane and Nye point out however, reputational accountability as a legitimacy-guarantor acts instrumentally, calling into question the practical effectiveness of corporate socialisation and learning processes. This does not, however, necessarily undermine the role of norms; regardless of whether particular norms or conventions are internalised by firms, the attention paid to them in order to ensure a legitimate reputation indicates their significance. The assumed legitimacy of international institutions is a normative belief that has clearly affected the choice by individual firms to engage in cooperative institutional behaviour.

Building on the notion of reputation as a key component of private authority, William Coleman examines in greater detail the governance role that associations have

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27 Robert O. Keohane and Joseph S. Nye, Jr, "Redefining Accountability for Global Governance," in Miles Kahler and David A. Lake (eds), *Governance in a Global Economy*, (Princeton: Princeton University Press, 2003), 386

acquired as well as the causes and characteristics of 'associational governance'. Coleman states that "associations act as governance mechanisms by defining and procuring public goods through organizing and enforcing cooperative behavior among their members, by engaging in collective contracts with other associations, and by securing delegations of state authority to be used to the advantage of their members."[28] The first requirement he sees for associations to assume a governance role is reaching a certain level of organizational development that is both: a) capable of ordering and coordinating the complex range of information and activities as requested by members, other organizations, and states; and b) autonomous from both members and the state and able to rise above short-term and particularistic interests of members.[29]

In addressing the question of how associations achieve 'organizational development', Coleman refers to the 'logic of membership', which examines how associations define their domain of potential members, and the 'logic of influence', emphasizing the environment within which organizations act on behalf of members. Essentially, organizational development is dependent on the internal relations of the association, as well as between members and external actors. In terms of the *effects* of associational governance, Coleman highlights an imbedded aspect of associations: beyond acting as a regulating mechanism, associations become a part of the policy process, training endeavors, local government agencies, and informal networks. It is arguably because of such a multifaceted involvement that "the association becomes an actor in its own right. It develops a collective identity that comes to infuse the consciousness of its members and that is recognized by state actors."[30]

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[28] William D. Coleman, "Associational Governance in a Globalization Era: weathering the storm", in Hollingsworth, J. Rogers (eds), *Contemporary Capitalism: The Embeddedness of Institutions*, (Cambridge: Cambridge University Press, 1997), 129

[29] Ibid, 129

[30] Ibid, 134

Speaking to the general question about the increased interest in private sector regime formation, Benjamin Gomes Casseres presents a case to show that the recent proliferation of business groups marks a new form of economic competition—group versus group. The factors he cites as affecting the increase in number of alliances are rooted in the changing global economy, technology advances, market demands as well as the push for specialisation that promotes system level interdependence to allow individual firms to focus on a single component. In this perspective, the role of alliance networks (clusters, constellations) is such that they offer advantages to members that exceed those of bilateral firm relationships and individual action in terms of: a) their combined sway in the battle over standards; b) the linkage between the local and global level; and c) the sharing of new technologies.

One of the major structural imperatives that allows for the development of global private authority is the absence of a central inter-state governance framework and the resultant difficulty in securing compliance for international issues.[31] "In response, a significant degree of global order is provided by individual firms that agree to cooperate, either formally or informally, in establishing international framework for their economic activity."[32] The notion that the international system contains a void within which private actors can exercise individual and associational governance supports theories that assert that the process of globalisation and economic liberalism have further encouraged an environment conducive to private authority. Stressing the importance of environmental change in shaping the role of the private sector highlights the need for theories of business associations and their impact to include analysis of the context and external pressures.

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[31] Cutler, Haufler, and Porter, 4
[32] Ibid, 4

The relationship between structure and agency is however not necessarily a unidirectional. According to Gramscian theories of transnational historical materialism, it is the *creation* of a 'historic bloc'—applicable to an increasingly organised business sector—that affects the environment and generates an acceptance of authority. In this view, "international organisation functions as the process through which the institutions of hegemony and its ideology are developed."[33] This theory would suggest that the proliferation of business associations has not only been affected *by* changes in the political economic environment, but has itself also influenced the context within which such organisations operate.

Self-Regulation

One of the primary criticisms made about theories that stress context and environment as key explanatory factors is the neglect of individual interests and initiatives, evoking the classic structure-agency debate. This theoretical puzzle is evident in analyses of increased private sector collective action and authority that emphasize either: a) structural-environmental changes that have encouraged certain behaviour over others; or b) emphasize individual material interests that encourage self-regulative mechanisms. These two sides however, are not necessarily contradictory and often need to be examined in conjunction in order to understand actors' behaviour. Closely related to theories of environmental forces is the research on the increasingly prevalent topic of self-regulation within the business sector. Self-regulation, which has emerged in multiple forms and serves a variety of purposes, can be classified both as a functional-institutional

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[33] Robert Cox, taken from David Levy, and Daniel Egan, "Corporate Political Action in the Global Polity," in Richard A. Higgott, Geoffrey Underhill and Andreas Bieler, (eds) *Non-state Actors and Authority in the Global System*, (London, New York: Routledge, 2000), 139

outcome of the changes in global governance as well as a result of pro-active business decisions.

Broadly speaking, business self-regulation can include any action that is initiated and monitored internally within an individual firm or inter-firm institution, describing most action taken by industry except that which fulfils requirements of an external governing body. According to Ian Maitland, one of the earliest observers of self-regulation, there are three levels of business self-regulation. The first—the firm level—where an individual company commits to following an internally designed code of conduct that is not subject to external review. The second level—industry self-regulation—often comes from, leads to, or develops alongside the creation of an industry association. Self-regulation in this form is framed as a collective action project that advances the common interests of member-firms. The third level—business-wide self-regulation—generally takes the form of what Maitland calls a 'peak organisation', an inclusive institution that tends to outline broad standards for business conduct and tends to play a more encouraging than regulative role in terms of monitoring behaviour. The UN Global Compact as an all-inclusive, non-regulatory mechanism falls into this third category.

In analysing the factors that lead to the development of different mechanisms for industry self regulation, Haufler shows that in all of the four strategies available to firms for dealing with external regulation—stonewalling (oppose all regulation), national strategies (oppose international regulation), harmonization (support international regulation, but oppose national ones), and global self-regulation—companies shifted strategies with respect to the historical international environment within which they were operating. The period 1972-1992 saw companies seeking to stonewall all national and international regulation of business, however over time as pressure came from both the level of society (reputational threats) and government (regulatory threats) firms increasingly engaged in pre-emptive institutionalisation of voluntary codes.[34] Based on the perception that the primary goals of all forms of industry self-regulation is to pre-empt or prevent strict government regulation,[35] it would seem that companies would prefer to remain outside of any framework in which the goals of regulation are not set exclusively by business interests. This is an important question for explaining the popularity of the UN Global Compact, an international forum in which business leaders do not exclusively set the agenda for themselves. However, as will be explored further, despite the fact the Compact is not a business-led initiative, there is still autonomy for individual participants and the network functions on a basis of self-regulation and self-disclosure of information.

As a form of governance, self-regulation is both the outcome of individual actor's motives and a product of the institutional environment. Theories of self-regulation focus on both sides of the problem—how to determine individual motivation and how to identify the environmental pressures. In terms of the latter, the context for business self-regulation draw upon theories of global governance and private authority that stress the importance of environmental changes in shifting governance in various directions and privileging the position of private actors. Equally significant in understanding self-regulation is the determination of actors' motivations, a process heavily steeped with theoretical assumptions about what factors influence actors' decisions. One of the most common methods of revealing why an actor chooses a particular course of action is using a basic cost-benefit analysis, an analysis that starts with the assumption that actors can rationally weigh all of the potential advantages and disadvantages associated with that

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[34] Virginia Haufler, "Globalization and Industry Self-Regulation," in Miles Kahler and David A. Lake (eds), *Governance in a Global Economy*, (Princeton: Princeton University Press, 2003) and Virginia Haufler, "Private Regimes,"in Higgott, Richard A., Geoffrey Underhill and Andreas Bieler (eds) *Non-state Actors and Authority in the Global System*, (London, New York: Routledge, 2000)

[35] Haufler (2000) claims that this is one of the fundamental goals of self-regulation. It is however, empirically unclear whether governments would or could enforce stricter regulation than is adopted voluntarily by firms.

choice. In many ways, the perception of actors' specific motivations relies on a more holistic and normative understanding of their nature. If firms are perceived as autonomous, self-interested actors, the evaluation of the costs and benefits of self-regulation differs than if firms are viewed as social actors that can be affected by norms and ideas of acceptable behaviour.

Virginia Haufler recognises that one of the primary aims of self-regulative mechanisms is pre-emptive, particularly in 'socially oriented' areas such as the environment, privacy issues, and worker's rights, where "it is clear that the private sector is acting strongly as a response to what they see as the threat of government regulation."[36] In addition to this concern, Haufler identifies four distinct, but potentially linked goals of self-regulation; 1) to maintain industry autonomy, (which results in the type of pre-emptive action mentioned); 2) to establish standards for efficiency in global transactions; 3) to ensure security of transactions; and 4) to respond to societal demands and expectations of corporate behaviour.[37] Stating these self-interested goals, however, does not explain why self-regulation is the best method to achieve them, or why these interests are privileged over others. Haufler identifies three driving factors behind self-regulation: *risk*, *reputation* and *learning*. The risk factor encompasses a wide range of concerns, which include fear of government regulation; activist pressures—coming internally from shareholders, or externally from national and international civil society organizations; economic risks, as a result of competitive practices and risks associated with long-term investment in a specific area; and political risks, also relating to investment in a specific area. According to Haufler, self-regulation as a concept is used as a form of insulation from these various risks.

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[36] Haufler, (2000), 133
[37] Ibid, 132

Closely tied to the notion of risk, reputation as a driving factor can be applied as a rational economic concern of business because it allegedly has a direct affect on profit. Haufler claims that once reputation is an asset (for example, within large publicly visible MNEs), firms are more vulnerable to campaigns to damage their reputation, and therefore are more likely to engage in self-regulated 'best practices'. Notably, these 'positive' efforts need to be equally as visible as confrontation campaigns for them to achieve their intended result of satisfying observers—a process that has been termed a 'race to the top'. The argument that a race to the top in terms of standards has materialized among firms competing for customers, employees, connections to other firms and governments is, much like the 'race to the bottom' theory, hotly contested by political economists. The outcome however, is not necessarily important for understanding the causes of self-regulation, and the question of whether firms actually change their behavior through self-regulative mechanisms is distinct from the *usage* of self-regulation to protect their reputation. A strictly rationalist perspective on reputation as a driving factor misses the point that reputation is a malleable, ambiguous concept that cannot be easily quantified.

The third driving factor in self-regulative regimes that Haufler identifies is learning, the notion that in the case of continued interaction, firms benefit from entering into a network of information-sharing that produces consensus on rules and how to implement them. The theoretical importance of this motivation is based on assumptions about the behavioral dynamics of the private sector and collective action. A rationalist perspective would identify a direct link between learning and collectively achieving efficiency maximization and risk minimization. A sociological perspective on the other hand, would focus on the potential for cognitive learning and norm transfer within self-regulating regimes. Haufler highlights the learning dynamic that can take place within institutions that lack monitoring or enforcement mechanisms, and emphasizes the training, guidance, technical assistance and information sharing that is transferred between members. The specific benefits that individual firms would derive from participation in this type of regime are less tangible than those believed to arise from self-regulation set up as a response to threat of government intervention and external regulation. The existence, however, of loosely connected and learning-oriented organizations without visible direct benefits lends support to theories that stress institutional formation owes some credit to interactive social processes. Sociological theories illustrate a more holistic explanation of institutional arrangements focusing on learning, and incorporate cognitive reasoning as an explanation for why firms undertake self-regulation. Understanding the dynamics of this type of regime is particularly relevant for a study focusing on the UN Global Compact—a self-defined 'learning forum'.

Long-standing assumptions about the private sector have led to a general consensus that because firms are chiefly profit-oriented, the primary motivations behind the set up of a self-regulative regime lie in the ability of this mechanism to foster such goals. The assertion that profit is the principal driving force behind private sector actions is neither new nor especially revealing in terms of why a particular option is chosen over others. It is the theoretical framework that informs analyses about *how* profit is to be pursued that is significant. Neo-realist and neo-marxist theories, which contain parallels in how they view power structures, would maintain that self-regulation is a veiled attempt on the part of dominant firms to control a greater share of the market. Self-regulation in this view is less about regulation than it is about control, and while it does not alter their behaviour, large firms will initiate or agree to self-regulative regime if it secures their interests vis-à-vis other firms and external regulations. Alternatively, a neo-liberal perspective would place more emphasis on the functional aspect of self-regulation and the services that it provides for its participants. Institutions are seen as efficiencymaximizing mechanisms and therefore a neo-liberal analysis of why firms voluntarily implement a self-regulative regime starts with the assumption that this form of cooperative arrangement is more economically desirable, through the adoption of product standardisation, protection and promotion of industry reputation, or to avoid more costly government regulation.

With respect to primary motivations, the claim made by Andrew Bonnet in 1935 still holds true for many observers today, that "since profit motive is the primary purpose of business, it leads also to the formation of business organizations"[38] The formation of private sector regimes is generally believed be a utilitarian outcome of business' rational consideration of how institutional mechanisms can serve their self-interest. John Dunning, a principal economic scholar who focuses on multinational enterprises and their affect on the international economy identifies both offensive and defensive reasons why independent firms would choose to engage in 'strategic alliances', all of which are based on a rational actor model of firms seeking to enhance their profits and relative position in the economy.[39] Dunning also claims that the increased multilateral action taken by governments that affect industry—such as codes and guidelines laid out by international institutions—have also increased the incentive for horizontal relationships between corporations.[40] In this view, associations that include private sector actors are shrewd business arrangements set up as self-protective measures for individual firms.

In his study of 'new institutional economics', Christopher Clague criticises the core economic assumptions behind strictly utilitarian theories: the belief that economic relations necessarily includes a) individual utility maximization with exogenous,

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[38] Bonnet, (1935), 1

[39] Dunning, John, *Multinational Enterprises and the Global Economy*, (Mass. : Addison-Wesley, 1992)

[40] Ibid

unchanging preferences; and b) a well-defined structure of information.[41] In much the same way that neo-realist and neo-liberal institutional theory are criticised for relying on problematic assumptions about nation-states and the acceptance that there exists a universally identifiable 'interest', an exclusively rational-economic model of business associations could be challenged using alternative theoretical reasoning. Given that there are different methods to achieve profits, it is the *process* of defining and pursuing this end that calls into question the rationalist perspective. A constructivist determination of 'interest' offers an alternative analytical framework from which to understand the formation of business associations. A constructivist socio-cultural approach forces the question of why firms increasingly act through institutions to attain their goals rather than other arrangements. Allowing for *ideational* as well as material factors to affect the development of an actor's interest, casts doubt on the conviction that business is solely motivated by concerns of short-term profit, and suggests they may seek less tangible ends such as legitimacy and authority. This perspective opens up the potential for a reciprocal relationship in the transfer of norms and ideas between business institutions and the environment within which they are formed. Essentially, constructivist theory would suggest that the creation and proliferation of an institutionalised international business sector is both a product of and contributor to the environment.

Corporate Social Responsibility

Theories about corporate social responsibility are also related to the study of the environmental pressures and material-ideational interests that motivate firms to pursue cooperative or activist policies. The term 'corporate social responsibility' was coined in

[41] Christopher Clague, "Economics, Institutions, and Economic Development," in Karol Soltan, Eric M. Uslaner, and Virginia Haufler (eds), *Institutions and Social Order*, (Ann Arbor: The University of Michigan Press, 1998)

the 1980s, however, the larger theme of corporate ethics arguably has a much longer history within business. CSR roughly refers to actions within the private sector that explicitly seek to be 'socially responsible', in terms of labour, environmental, or other 'social' goals, as distinct from purely profit oriented ones. Most of the analysis of CSR within international business is focused on characterising the trend and defining its meaning, and different theoretical perspectives lead to different conceptions of how to categorize corporate social responsibility. Because the idea of CSR began as a response by business to campaigns on the part of non-governmental groups to target 'socially irresponsible' companies and the reaction came from individual companies, CSR was initially set as a specific choice based on an assessment of a firm's interest. Later theories of corporate social responsibility focused on a more holistic understanding of the concept, and exploring the extent to which CSR acts as a business norm that has changed the context within which interests are defined.

The theoretical importance of CSR to an analysis of the Global Compact is threefold: the growth of CSR norms has contributed to the surrounding environment of global governance and private authority; individual firms assessment of interest increasingly includes CSR factors; and the Global Compact itself is loosely based on ideas of corporate behaviour that sprung from CSR debates. The problem with using theories of corporate social responsibility is the overtly normative connotation that is associated with different perspectives. Most theoretical analysis is based on the advantages or disadvantages of CSR and the extent to which business should be involved in socio-political 'activism'. In contrast to the tendency to view CSR initiatives as either enlightened behaviour or a deceptive public relations campaign, recent work on the notion of 'corporate citizenship' has used methodology drawn from other areas to examine the trend.

An alternative understanding of 'corporate social responsibility' highlights the 'semantic paradox' of the concept—that CSR, using the language of 'ethics' and 'responsibility' connotes selflessness and altruism, whereas in practice altruism cannot explain or fundamentally alter behaviour, which is still carried out according to rationalist demands and self-interest. In this view, the so-called 'best practices' of business are regarded as 'strategic corporate citizenship'—defined as "corporate behaviour that serves both a company's self-interest and the public interest."[42] According to the study "Finding Strategic Corporate Citizenship", understanding corporate action as *strategic interaction* rather than as one-sided reactions to an environment allows for a game theoretic analysis that focuses on interdependencies within business, which helps explain circumstances in which corporations 'contribute' or 'defect'. Looking at the various game theory formulations, the study concludes that corporate social responsibility can function as both a public and a private good for business depending on a variety of variables.

The question about incentives and desirability of 'corporate citizenship' clearly affects different authors' specific analysis of the CSR trend, however, it is the theories of why such behaviour (or at least the pretence of such behaviour), has become so prevalent among business leaders and business analysts recently that is the significant issue here. Organisational theories, both rational and cognitive, would suggest that it is group dynamics that would determine the strength of a corporate social responsibility regime, loosely defined. Even in the case of private, excludable goods, it is arguable that 'progressive' firms have an incentive to promote compliance by others in the system so as to avoid potential competitive disadvantage that may result from employing 'best practices' such as costly environmental technology or raising the wages and/or the rights

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[42] "Finding Strategic Corporate Citizenship: A New Game Theoretic View," *Harvard Law Review*, (117:6, April 2004), 1957

of workers in developing countries. As well, the impetus to include large sections of a particular industry in an effort to implement certain procedures can come from the desire to insulate that industry from external criticism and regulation as well as advance a perception of legitimate authority. Beginning as a voluntary undertaking, often to pre-empt potential government regulation, CSR measures fit with the notion of self-regulation, at both the individual and group level. Furthermore, despite a degree of cynicism and analytical criticism, there has been widespread legitimacy given to business actions that align themselves to 'corporate citizenship'. It is this legitimacy associated with CSR as an umbrella idea that is especially relevant for understanding the growth and development of private governance.

The Global Compact is seen by many to be a product of changing public-private relations and is an example of a new form of cooperative governance mechanism. There are numerous theoretical frameworks and perspectives that could be employed for understanding the GC and it is those theories relevant to the origins of the Compact—its creation and structural design—that that have been examined in this chapter. The theories that are particularly relevant are those that offer insight into the institutional environment and the individual motivations of participating actors. Finding traditional international organisational theories inapplicable, Rosenau's theory of changing global governance and related theories of private authority offer an overarching theoretical framework that outlines the context within which the Global Compact is situated. It is asserted here that the creation of the UN Global Compact, with the inclusion of both public and private sector actors, signifies an institutional shift towards new forms of governance in areas traditionally dominated by states. Environmental factors however can not wholly explain the GC initiative or other business associations; there needs to be consideration of the material and ideational motives that drive individual actors to participate in these regimes and thereby contribute to governance trends. Theories exploring individual and business-wide incentives for self-regulation and corporate social responsibility are used here to supplement structural theories and suggest reasons why companies have willingly signed onto the Global Compact.

CHAPTER 3: The Global Compact

In order to comprehend the institutional significance of the UN Global Compact and the potential implications for the international political economy, it is necessary to explore the specific characteristics and components of the network. Determining the nature of the Compact, understanding how it relates to other similar institutional patterns in international relations, and settling on a categorical name to which it should be attached, is largely a project in comparative analysis. As a voluntary network composed of both public and private members allegedly devoted to a broad, non-binding agreement on principles of business conduct, the Compact is clearly a different breed of international institution than traditional inter-state models of cooperation.

Although it falls under the rubric of a UN initiative, the Global Compact initiative would be mistakenly studied as a conventional 'international organisation' as the driving forces, the institutional structure, and the rules of engagement for the Compact all differ from pre-existing UN bodies. As such, the GC is more appropriately grouped with the new and growing trend of alternative international arrangements that include a host of non-state actors. Rosenau classifies these as the units of a new ontology of international politics, including NGOs, non-state actors, sovereignty-free actors, issue networks, policy networks, social movements, global civil society, transnational coalitions, transnational lobbies, and epistemic communities.[43] Specifically, with the majority of the members belonging to the business community and the focus lying primarily on corporate responsibility, the Global Compact is most closely associated with collective action mechanisms within the private sector. These groups vary widely in terms of size, purpose, design and results; looking briefly at different arrangements that have emerged

43 Rosenau, 297

helps understand the nature and role of the UN Global Compact in contemporary international relations.

The Components

Looking first at the structure of the Global Compact as it stands, it is then possible to comparatively examine the network in contrast to other related institutional governance models. The overarching rationale of the Compact is based on a desire to create an inclusive forum that brings together different players in the field of international business for the purpose of discussing and advancing issues of corporate conduct, specifically those relating to social, environmental, human rights and anti-corruption. The emphasis on cooperation and mutual information-sharing explains the logic of the framework—a loose network of equals collaborating on relevant issues. The channels of authority within the Compact, according to recent structural changes made in 2005, are shared by five entities and a non-profit foundation, each with differentiated governance functions. These are: the triennial Leaders Summit, a Board, Local Networks, the Annual Local Networks Forum, and the Global Compact Office and Inter-Agency Team. The composition of the Compact is designed as a network of interacting component parts, with the Advisory Council and the GC Office (GCO) at the core and other individual and group participants occupying the surrounding concentric circles.

At the centre of the Global Compact is the Advisory Council, which has 17 rotating members representing the five different types of participants in the network—industry, labour, NGO and academic, with governmental representatives given observer status. Also in the GC's nucleus, the Global Compact Office, a staff of nineteen with headquarters in New York, provides a bureaucratic function for the network, compiling policy papers and relevant documentation, and perhaps most importantly maintaining the

GC website. The website is a key component of the Compact, as it includes updates on the actions and projects of the network as a whole, as well as information on and links to participant companies and their communication on progress reports. Also included within the Global Compact core are related UN bodies, which currently consist of six principal agencies—the Office of the High Commissioner for Human Rights (OHCHR), the ILO, UNEP, United Nations Development Program (UNDP), United Nations Industrial Development Organization (UNIDO), United Nations Office on Drugs and Crime—which meet regularly with the GCO throughout the year.. On the periphery, the Compact has set up a web of connections to academia, business, civil society, labour, local GC networks, and governments. These 'stakeholders' in the Compact differ in terms of their roles and responsibilities, with the focus directed predominantly at GC corporate partners and their business practices and partnerships. The model of the Compact as displayed on the GC website, is made of concentric circles, with the Advisory Council as the nucleus, and the Global Compact Office—including the six UN bodies—as the central hub, surrounded by academia, participating companies and business associations, civil society and labour, local networks, and finally the furthest circle composed of national governments.[44]

With an overarching aim to improve international business practices and standards, the Global Compact is broken along the lines of business representatives and their watchdogs, the latter including NGOs, academics, labour and government representatives and UN diplomats. The relationship between these two seemingly oppositional groups within the GC relies on mutual respect and cooperation, and the dual tasks of reporting and monitoring falling to corporate and non-profit members respectively, are less emphasised by the Compact organisers than the process of learning

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44 See Global Compact website, http://www.unglobalcompact.org/Portal/Default.asp?

and the sharing of knowledge. Each of the levels of membership within the Global Compact is assigned a loosely defined function for contributing to the Global Compact process, with the principal obligation lying with firms, who are required to set in motion a series of implementing procedures for internalising the ten principles. The procedure involves a four-step plan in which a company a) sends a letter from the Chief Executive Officer (endorsed by the board) to the UN Secretary-General expressing support for the Global Compact; b) sets in motion changes to business operations, making the ten principles a part of its strategy, culture and day-to-day operations; c) is expected to publicly advocate the Compact and its principles; and d) is expected to publish in its annual report or similar corporate report a description of the ways in which it is support the Global Compact.[45] These conditions apply exclusively to business, the course for other actors is less clear and based on individual contact and invitations. According to statements, non-governmental and non-business partners are considered equal partners, and have a "crucial role to play in helping to foster partnerships and produce substantive action,"[46] however there is no detailed procedure for these groups to follow, and involvement requires only that groups maintain support for the Compact and its principles.

In terms of specific action, the Global Compact openly distinguishes itself from other corporate citizenship mechanisms and codes of conduct that directly enforce standards for business. The Compact is *not* a regulatory instrument and does not 'police' the behaviour of its member-firms. Rather, according to its website, "the Global Compact relies on public accountability, transparency and the enlightened self-interest of companies, labour and civil society to initiate and share substantive action in pursuing the

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[45] GC website, http://www.unglobalcompact.org/HowToParticipate/index.html, emphasis added.
[46] Ibid, Frequently Asked Questions

principles upon which the Global Compact is based."[47] Without an enforcement mechanism in the structure, the Compact can employ only 'soft power' means of working toward their stated goals. One of the predominant features of the GC is the importance placed on summit meetings and discussion forums both globally and regionally. On a more regular basis, the Compact uses several mechanisms to engage its various participants—Policy Dialogues, Learning, Country/Regional Networks, and Projects—in order to achieve the Compact's two primary objectives of mainstreaming the ten principles and catalyzing action.

The Global Policy Dialogues, annual multi-stakeholder meetings that focus on a variety of relevant issues and 'contemporary challenges of globalization and corporate citizenship'[48], provide an important forum for substantive discussion amongst all GC participants. As emphasized on their website, "dialogue is central to the Global Compact"[49], and the annual stakeholder meetings offer voluntary participants a forum in which to discuss a variety of relevant issues and policies, currently coalescing around: conflict prevention, sustainable development, HIV/AIDS, supply chain management, partnerships, transparency and anti-corruption, sustainable consumption, human rights, and financial markets. The stated objectives of the Global Compact policy dialogues are: a) 'creating an international platform that facilitates mutual understanding and joint efforts…in order to address contemporary globalisation challenges'; b) offering a neutral environment for 'collective problem-solving that will generate innovative and practical solutions'; and c) assisting in the development of collective or individual outcomes with the potential to be translated into action.[50] The most recent example of this type of 'soft power' politics was at Global Compact Summit in late 2005 in Shanghai, the results of

[47] Ibid, Overview of the network.
[48] Ibid, Overview, Policy Dialogues
[49] Ibid, Issues/Policy Dialogues GC
[50] Ibid

which are yet to be fully disclosed. As well as holding annual Global Policy Dialogues, the Global Compact puts substantial emphasis on local networks as opportunities to create local structures to deal with issues and develop creative solutions at the country or regional level. The Compact describes the importance of local outreach/networks as such:

> Country and regional networks increasingly serve as engagement platforms for participants, be it for moving innovative solutions upstream for global replication and multiplication, or be it for taking global dialogue issues down to the level of implementation. Local network actors are familiar with the country or regional culture(s) and language(s). The effectiveness of a country, regional or sector network depends on the actions taken and the participants' ability to communicate well both with members of the network and with members of the business community.[51]

It is clear from this outline of the role of local and regional networks that the importance of information-sharing and learning penetrates every level of the Compact. The network's structure reflects and institutionalizes the spirit of a learning forum, in which horizontal interactions between participants are directed at the transfer of knowledge and innovative solutions related to the ten principles. By focusing on *continuing* processes rather than a short-term outcome, the GC stands out from other short-lived or single-issue peak organisations or policy networks. Drawing upon Robert Faulkner's assessment about which institutions qualify as 'governance mechanisms' rather than simply ad hoc arrangements, it is clear that the UN Global Compact has been created to function in this capacity. According to Faulkner, private governance emerges in a context of permanent institutionalized interaction[52], and as the GC was set up to facilitate institutionalized interaction for a wide range of issues for an indefinite period of time, it should be distinguished from merely cooperation between actors.

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[51] Ibid, Networks Around the World

[52] Faulkner, (2003), 73

The emphasis on the GC website as an open medium in which participants can share practice cases and experiences with their specific implementation procedures and accessible both to the public and members, indicates a unique quality that separates the Global Compact from other more policy oriented institutions. Upon signing on to the network, businesses agree to publish an annual report of their progress and a description of the ways in which it is supporting the Global Compact and its ten principles, which is then displayed on the GC's website. The Communication on Progress part of the website is an interesting example of a user-friendly bulletin for firms' action, providing full access to non-participants of reports as well as a list of non-communicating companies. This practical component of the Compact relies on theories that assert the importance of naming and shaming as pressure politics devices.

In addition to functioning as an accountability measure, company reports are intended as examples for information-sharing and learning within the Global Compact. Submissions on individual company's experiences are categorised into examples—short descriptions of actions; case stories—more in-depth narratives; case studies—longer analyses of actions involving a third-party researcher; and partnership projects—providing details of how different organisations are working together. While GC member-firms are required to commit to implementing and internalising the Ten Principles, there is no specific method or format that companies have to follow and thus the network depends on the growth of reciprocal relationships between participants for advancing business 'best practices'. Again citing its own explanation of what the learning aspect of the Compact attempts to achieve, the following passage highlights the importance of collecting and sharing information among participants:

> The Learning Forum invites participants to share good practices and identify and fill knowledge gaps around issues related to the Global Compact. Our goal is to establish a rich and useful repository of both corporate practice and fundamental research, a

> platform of knowledge that integrates the views of all relevant stakeholders, while simultaneously increasing the transparency of companies' activities.[53]

Changes and Adaptation

Although the Global Compact is still in a period of relative infancy in comparison to many international organizations, particularly its parent organization (the UN), the network has made advances over the past five years. As mentioned, the GC has witnessed a considerable growth in the numbers of participants from various sectors of the international community, the addition of a tenth principle, and the development of the website as common forum for the dissemination of information about partners and their activities. The past year in particular has demonstrated the network's ambition for an increased relevance; 2005 marked the launch of the *Compact Quarterly*, a quadrennial online journal published by the Global Compact Office. "The *Compact Quarterly* endeavours to provide Global Compact participants, stakeholders and observers with a range of thought-provoking articles, interviews and updates on topics related to the initiative, as well as to corporate citizenship and CSR generally."[54] Perhaps more significant than this addition to the dialogue component of the GC, is the announcement made 6 September 2005 of a new governance framework for the Global Compact network.

At the June 2004 Global Compact Leaders Summit Global Compact an agreement was made that the network had "reached a stage of maturity and scope that demand greater focus, transparency and sustained impact."[55] This position was echoed by Secretary-General Kofi Annan in his call for a strategic review. After extensive

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[53] Ibid, Learning

[54] http://www.enewsbuilder.net/globalcompact/

[55] http://www.unglobalcompact.org/content/NewsEvents/governance_pr.htm

consultation with the representatives of Global Compact stakeholders, a refined governance framework was developed by the GCO and approved by the Secretary-General in 2005. Under the proposals, the fundamental nature of the Global Compact will remain the same, continuing to operate as "an open, voluntary initiative engaging a wide spectrum of companies and stakeholders across the globe to advance responsible corporate citizenship."[56] The other essential elements of the GC including the ten principles, the overarching mission and specific objectives will also remain unaltered. The principal 'engagement mechanisms' that the Global Compact uses, such as the learning and dialogue forums, will continue with only minor adjustments in emphasis, such as the *quality* of engagement mechanisms and an aim to make them more strategic and outcome-oriented.[57]

It is primarily the governance framework that the Global Compact's 'next phase' seeks to address. "In keeping with the Global Compact's voluntary and network-based character, its structure will be light, non-bureaucratic and designed to foster greater involvement in, and ownership of, the initiative by participants and other stakeholders themselves."[58] Of central importance in the new plan is transparency, an area that has been the cause of criticism by many observers, and one to which the GC has been sensitive. In January 2003, the Communication on Progress policy was set up, requesting participants to communicate their progress with other GC stakeholders. Under the new framework, governance functions are divided between six entities: a triennial Leaders Summit, a Global Compact Board, Local Networks, an Annual Local Networks Forum, the Global Compact Office and Inter-Agency Team (coordinating tasks of the six UN agencies involved in the network), and the establishment of a non-profit Global Compact

56 Ibid

57 http://www.unglobalcompact.org/content/AboutTheGC/gc_gov_framew.pdf

58 http://www.unglobalcompact.org/content/AboutTheGC/gc_gov_framew.pdf

Foundation to provide additional financial support. The proposed amendments in the governance framework, which detail in greater depth the specific changes to be implemented, are expected to be carried out in 2006.

In attempting to understand and analyze the nature of the UN Global Compact, the recent efforts on the part of the network to change aspects of its structural governance offers insight into the Compact's institutional goals. The willingness to adapt and the desire to remain relevant are not unique to the Global Compact, however, the loose network design of the institution entrenched the qualities of flexibility and openness into the very nature of the organization, as intended by the original founders. One of the key questions that emerges with respect to the Global Compact is whether this characteristic flexibility enhances the significance of the initiative, or whether it reflects a reactive response on the part of the United Nations that is itself struggling to remain relevant. What is clear is that the GC, in keeping the fundamental elements of the Global Compact constant, seeks to remain broad enough to encompass a range of different activities. The stated mission of the GC is the following:

> The Global Compact strives to be the world's most inclusive voluntary initiative to promote responsible corporate citizenship, ensuring that business, in partnership with other societal actors, plays its essential part in achieving the United Nations' vision of a more sustainable and equitable global economy.[59]

The specific objectives of the Compact focus on elevating the status of the enterprise and its principles so that they become 'an integral part' of global and local business operations and employing the dialogue and the partnerships created within the GC to advance broader UN goals. Assessing the effectiveness of the Global Compact's design based on these lofty and intangible aims is difficult, in part because of the ambiguity of how to measure success as well as the fact that the network is still in the

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59 http://www.unglobalcompact.org/content/AboutTheGC/gc_gov_framew.pdf, p 2

early stages of organizational development. The significance of international organizations are however, are not solely dependent on *effectiveness*, and a considerable body of theory would suggest that there is not a necessary correlation between effectiveness and impact. One of the main postulates of the recent literature on global governance and private authority asserts that regardless of its practical impact on business behavior, private sector collective action is having a significant impact on the norms and culture of the international political economy.

Comparison and Classification

Classifying the Global Compact among organisational models proves to be a difficult task, as the network does not neatly fit into one specific category but rather possesses qualities from a number of different forms of collective action. As a subsidiary arm of the United Nations, the Compact has been closely linked to the domain of public international organisations from its inception, even though its membership does not contain states and the network operates in a much different manner and through different channels. It would be a stretch therefore, to group the Global Compact among other UN bodies. There is however elements of pre-existing international organisations within the Compact. As the network states, the inspiration for the ten principles are derived from: The Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, the United Nations Convention Against Corruption. Designed with broad values and lacking enforcement capabilities, the Global Compact resembles other inter-state attempts to regulate the behavior of multinational companies, such as the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises created in 1976, the International Labour

Organisation's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the failed attempt of the UN Commission on Transnational Corporations, set up in 1974 to negotiate an international code of conduct. The UN Global Compact stands out as a kind of hybrid of these earlier guidelines, using previously existing international frameworks to standardise responsible business practices while also including a host of previously uninvited non-state actors.

By incorporating business associations and individual companies into the framework of this approach to corporate regulation, the Global Compact is related to the growing phenomenon of inter-firm associations. Virtually every sector of the economy has witnessed the development of organisations of corporations that seek to influence national governments, international organisations, and the international political economy. As discussed in the first chapter of this study, business alliances are not new phenomena, however it is clear their influence in global affairs has increased significantly. Formed in 1919, the International Chamber of Commerce (ICC) was the first major example of an international private sector regime, and one that grew in numbers and influence over time. Classified as a universal business membership or 'international inter-sectoral organisation', the ICC represents just one category of business association, also referred to as an 'umbrella organisation' that includes members from all economic sectors, regardless of firm size or direction. The two other broad typologies are 'international sectoral organisations' and 'multi-stakeholder regimes'.[60] The membership of both of these also include business representatives and corporate executives, the former being composed of firms operating within a particular industry often operating with a more specific mandate than the inter-sectoral associations. Examples of international single-sector business associations include the International

60 These are the categories used by the UN Global Compact.

Council of Chemical Associations (ICCA), International Petroleum Industry Environmental Conservation Agency (IPIECA), and the Global Mining Initiative (GMI). On the other hand, multi-stakeholder organisations like the Global Compact are the most inclusive of the three categories and include 'stakeholders' from both public and private sectors. These broadly focused and highly visible regimes are often tied to politically charged issues that impact multiple actors in the international community.

The international community has witnessed a proliferation of different manifestations of private sector groups, which often include in their mandate an aim to set industry-specific codes of conduct that fall under the rubric of corporate social responsibility ideas. An example that is often cited as a successful case of voluntary business collective action is the Responsible Care Program, initially adopted in 1985 by the Canadian Chemical Producers Association (CCPA) and later transferred to other national chemical associations as well as the International Council of Chemical Associations (ICCA). The program consisted of members making a formal commitment to a set of guiding principles and a series of codes, guidance notes and checklists to help companies implement them. In addition to sector-specific associations there have also been broad-based industry initiatives often formed for limited purposes, such as the Sullivan Principles, the Caux Principles, and the CERES Principles. More formalized interaction has also emerged in international inter-sectoral business associations such as the World Business Council on Sustainable Development (WBCSD), and the Prince of Wales International Business Leaders Forum (IBLF) among others. While the majority of existing inter-firm organisations were not formed for the specific promotion of CSR, as a voluntary project corporate social responsibility seems to have a natural affinity with these self-regulatory frameworks and as such the concept has been incorporated into most existing groups, particularly those with a high public profile.

In response to the 'new activism' of CSR, business sought to use structures resembling what Justin Greenwood calls 'cloaks'—shielding individual firms from public activism and government regulation.[61] Under certain circumstances, "trade associations can act as powerful intermediaries between state and civil society, delivering the compliance of their members for governance mechanisms in return for a place at the policy-making table."[62] Although as Greenwood notes, trade associations have not been at the frontline of business initiatives for corporate citizenship, but rather it has been specialist organisations, such as the Prince of Wales International Business Leaders Forum and the Institute of Business Ethics, that have taken the lead in terms of proactive CSR endeavours.[63] This empirical observation reinforces the theory that trade associations operate as defensive alliances, an assumption that seems to add to the appeal of the Global Compact for those firms seeking to obtain a degree of legitimacy from participating in a multi-stakeholder coalition. It is the breadth of actors involved in the GC project that gives it a sense of legitimacy, despite criticism that a focus on indiscriminate expansion weakens the functions that are achievable within small groups.[64] The Compact is clearly different than exclusive business associations, yet the emphasis placed on voluntarism and self-regulation places the institution within a similar theoretical realm. The decision to rely on the open disclosure of business practices under the scrutiny of civil society makes the Global Compact susceptible to the criticism that surround the issue of self-regulation within the private sector.

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61 Justin Greenwood, "Trade Associations, Change and the New Activism," in John Steve and Stuart Thomson (eds), *New Activism and the Corporate Response*, (New York: Palgrave Macmillan, 2003), 52

62 Ibid, 61

63 Ibid, 58

64 Theories that tie group size to effectiveness are widespread, Mancur Olsen was a prominent group theorist who made this claim. Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, (Cambridge: Harvard University Press, 1965)

Although the Global Compact relies on the self-regulation of its member-firms for the implementation of the ten principles, this authority is supposedly checked by the membership of civil society organisations and actors. The question of inclusion and exclusion within the Global Compact has been a source of both praise and condemnation for the organisation. Criticism has come mainly in the form of claims that the GC is inherently flawed because it cooperates with violating companies and promotes a partnership relationship between groups with opposing intentions.[65] Different perceptions of the UN's role in the setting the international agenda often inform a normative evaluation about the Global Compact's chosen direction. Theories focusing on private authority and voluntary self-regulation outline general concerns about the transfer of legitimacy and authority. By including a self-regulatory function for business participants, the UN GC has incorporated an element of private governance into this multi-stakeholder organisation. Pearson and Seyfang claim that one of the problems with legitimising voluntary codes of conduct within industry is that they often reflect industries immediate interests. Often formed as responses to criticism, company and business associations' codes of conduct are generally narrow in scope and some are created as "direct responses to stronger codes put forward by workers organisations and pressure groups in those industries, and the content of these codes reflects this origin..."[66] In contrast, codes of conduct which involve NGOs and labour organisations tend to include a wider range of concerns raised by traditionally excluded groups (such as subcontractors and homeworkers).

The Global Compact however, differs from a strictly private governance institution because it purports to be a network that actively includes civil society and

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65 Kenny Bruno and Joshua Karliner, "The UN's Global Compact, Corporate Accountability and the Johannesburg Earth Summit," *Development*, (45: 3, September 2002)

66 Ruth Pearson and Gill Seyfang, "New Hope or False Dawn," *Global Social Policy*, (1:1, 2001), 60

labour organisations and seeks to address the problem of exclusion that characterises other designs of corporate responsibility codes. The choice to include legitimate international organisation's codes of conduct rather than adhere to business codes indicates a distinction between the GC and other private sector regimes. It could be argued however, that having to appeal to large number of diverse and often competing interests has diluted the goal of ensuring responsible business practices. Furthermore, Tariq Banuri and Erika Spanger-Siegfried articulate the fear that the GC initiative is a partnership between big business, big labour, and big NGOs all sanctioned by the UN—the biggest international organisation of them all.[67] According to Banuri and Spanger-Siegfried, this leaves out small and medium-sized enterprises, which the authors claim constitute the vital 'livelihood economy'. Another aspect of exclusion relates to the use of the GC website as a forum for dialogue, knowledge-sharing and learning. The benefit of using this medium is that it arguably enhances transparency and increases the number of individuals and businesses who can access information and statements posted, yet the issue of access, largely drawn along lines of wealth.

Despite criticism, the Global Compact's focus on its website as a forum in which potential and existing participants engage in knowledge-sharing is one of the innovative aspects of the network. Proponents of the Compact as well as the organisation itself highlight the differences between the GC and other more institutionalised international organisations. The GC, designed as a loose horizontal network that relies on voluntary participation among participants and self-regulatory adherence to the ten fundamental principles, emphasises its role as facilitator of a *process* rather than an institution of explicit rules and procedures. The 'sharing and learning' aspect of the GC is perhaps the most interesting and certainly the most robust part of the GC's website and it is this

[67] Tariq Banuri and Erika Spanger-Seigfried, "The Global Compact and the Human Economy," *Journal of Human Development*, (2:1, 2001), 9

functional component that arguably advances corporate social responsibility norms.[68] The format of the GC, lacking monitoring and certification mechanisms and rather focusing on dialogue, has been purported as both a strength and a weakness of the network, based on different analyses.[69]

Also signifying its role in shifting norms of business practices, the creation of Global Compact regional and country networks and the GCO's enthusiastic endorsement of further institutional decentralisation, signals the type of organisation the Compact is trying to emulate. By shaping the institution as a self-titled 'network of networks'[70], with the head office in New York acting as only a coordinating 'hub', the designers of the GC have attempted to secure the benefits of small-scale operations in addition to those attached to large visible international organisations. According to the GCO, small and medium-sized business enterprises identify language and lack of resources as a barrier to their active involvement in international economic affairs, and "highly autonomous and self-driven [regional] networks are in an ideal position to confront this challenge."[71] The position of networks 'on the ground' gives them the unique ability to bring the discussion of global issues to a local and regional context, within which they have the advantage of knowledge of the local business environment and are familiar with specific social, cultural, and political factors.[72]

The Global Compact's reports claim that country or regional networks offer a platform to domestic businesses that are seeking to build their international profile and can act as a liaison between these actors and the other stakeholders, enabling the GC to

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[68] It is interesting to note that while the ten principles for responsible business behaviour have been criticised as too broad, the GC's website offers specified information about the background of each of these principles for actors interested in practical implementation of these principles.

[69] Ruggie, (2001)

[70] Taken from the UN Global Compact report, "The Global Compact: A Network of Networks," 2004

[71] "The Global Compact: A Network of Networks," p 2

[72] Ibid, 2

"intensify its global outreach to engage companies, establish lasting and active relationships and to support participants in a more focused way."[73] Connecting networks within a larger web of networks creates linkages between otherwise disconnected groups and allows for local issues to be brought to the global level, as well as break-down global issues into its application for the country or regional levels. This push to create relationships and actively pursue inclusiveness is one of the key features of the Global Compact, and one that distinguishes it from other international arrangements. In light of the models presented, the Global Compact stands out as a kind of hybrid institution that incorporates elements from a variety of different organisational designs. As such, it would be a mistake to put the Compact in an existing category of international institutions. Perhaps the terminology that best fits the GC is used by one of its primary advocates John Ruggie, who refers to the Global Compact as a 'multi-stakeholder learning network'. This term, although containing a positive normative tone attached to the notion of 'learning', fits with the GC's foremost functions and overarching institutional motivations. Classified as a 'multi-stakeholder learning network', the Compact's connection to ideas of private governance explored in chapter two are not immediately obvious. It is the GC's role in changing global governance structures that has effectively aligned the network with models of private governance. Through a tacit acceptance of private sector influence reflected in the institutional choices of the designers, the Compact has contributed to a transfer of authority. The development of the Global Compact and its role in global governance will be the subject of the following chapter.

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[73] Ibid, 5

CHAPTER 4: Why *This* Global Compact?

This chapter will seek to apply theories explored in chapter two to an analysis of the Global Compact, thereby exploring the nature of this institutional initiative and answering the question of its emergence and its role in the global political economy. Telling the story of the Global Compact necessitates a two-level approach, including both a narrative of the networks' formation as well as a discussion of the historical context within which it emerged. Outlining the historical context first establishes the foundations upon which this UN sanctioned 'multi-stakeholder learning network' was built and facilitates an examination of why the initiative came when it did, and why this design was chosen. The theories taken from chapter two help where the Global Compact fits in, and what the network indicates about the international environment. The unique feature of the Compact that distinguishes it from other United Nations institutions as well as strictly business associations is the inclusion of both the public and private sector. The explanation for this institutional choice requires an analysis of the external and internal forces acting upon the network.

Historical Context

The UN Global Compact has emerged in a period that many have claimed is marked by changes occurring within the social, political and economic spheres. The overarching term 'globalisation' has been used to describe these changes in technology, global interconnectedness, social movements, political systems, governance structures, increasing international trade, powerful transnational companies, as well as a multitude of other issues. Of the numerous subcategories within the globalisation debate, those that are especially relevant to the study of the Global Compact are: the enhanced economic and political clout of private business, the corporate-led initiatives surrounding the concern with 'corporate social responsibility' and the subsequent adoption of this concept by other non-business groups, the development of private sector collective action arrangements, and shifts in global governance. The combined pressure of these external forces created an atmosphere within which the designers of the Global Compact made choices about the direction and structure of the network.

There is extensive empirical evidence highlighting the overwhelming economic power of transnational corporations in the global economy and their continuing growth relative to other actors in the system.[74] Although there is an assumed connection between economic power and political power, there is no conclusive link between the increases in the corporate share of the market and a necessary increase in their international authority. As Lonar Reith claims, authority is a *social phenomenon* and is derived from the interacting dimensions of coercion, interest and legitimacy[75], which implies that corporations require a degree of public acceptance in order to attain a mantle of authority. It has arguably been through the dual processes of privatisation and the 'corporate social responsibility' debates that have helped the private sector consolidate areas of authority.

Corporate reaction to these two trends has been to harness and manipulate the conditions of operation in their favour by taking on new governance tasks or participating in regimes that potentially enhance their legitimacy not only in economic terms, but also as political and social actors. In terms of privatisation, national and transnational firms all over the world have taken on roles that have traditionally been reserved for the public sector, and this mandate allegedly leads to an implicit consent for business to act with

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74 Jennifer Clapp cites statistics that operations by transnational corporations or their affiliates makes up one-tenth of world GDP and world exports. Jennifer Clapp, "Transnational Corporations and Global Environmental Governance," in Peter Dauverge (ed), *Handbook of Global Environmental Politics*, (UK: Edward Elgar Publishing, 2005), 284

75 Reith, 180

authority. Authority acquired through the construction of the concept 'corporate social responsibility' was not granted by an external force as in the case of privatisation, but rather emerged as a result of the declarations on the part of business. The claim that many multinational corporations had become responsible contributors to the global economy in addition to the assertion that self-regulating business structures would most effectively change behaviour enhanced the acceptance of business' new governance roles.

Focusing strictly on the power of business neglects an analysis that includes the power of the other actors within the international system. By forcing the issue of corporate social responsibility outside a strictly business realm onto the international stage, non-business groups set the precedent that the impetus for change should not come solely from the 'goodwill' of companies but rather from a dialogue among all relevant actors. This claim relies on the argument that in addition to favouring deregulated business, globalization also facilitated the growth in the number and strength of NGOs and 'transnational advocacy networks' (TANs), whose normative and material power has been legitimised in similar ways as business—through a perception of expertise[76] and a perceived political role.[77] The Global Compact, as a network designed to include both business and civil society, can be seen as part of a larger trend that recognizes the increasing political, social and economic authority of various non-governmental actors and has sought to bring them into international conferences and negotiations. The normative expectations imbedded within these forums are based on assumptions that participating in dialogue socializes actors to behave in a cooperative manner rather than operating through confrontation detrimental to achieving an overarching goal.

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[76] The belief in the importance of expertise can be linked to Keohane and Nye's analysis of how governance is legitimised through efficiency and reputational accountability.

[77] The simultaneous political growth of inter-firm and civil society organisations relates to Gramscian notions of hegemony and counter-hegemony as interdependent forces. Robert Cox, "Gramsci, Hegemony and International Relations: An Essay in Methods," *Millenium,* (12:2, Summer, 1983)

The development of the idea of 'corporate social responsibility' coincided with the forces of globalisation and privatisation, as companies began to take on enhanced governance roles in the global economy. Although it is a relatively new concept, ideas of corporate responsibility have become commonplace in the current political atmosphere and have added to the context within which the Global Compact was formed. There has been much talk of the importance of CSR[78] and virtually every major consumer company has devoted resources to studying and promoting their particular corporate 'values', many going as far as to allocate a specific department for dealing with issues of social responsibility. Clearly this term, and the phenomenon behind it, is gaining increasing visibility in the politics of the marketplace as well gaining ground within the larger spectrum of international relations. The terminology of 'corporate social responsibility' (CSR), the specifics of which are outlined differently by different users is difficult to define except in a very loose sense. It will be used here in reference to sets of voluntary initiatives taken by businesses that indicate an alleged awareness of the social responsibility that is attached to their role as a profit-maximizing entity within communities. The ambiguity of the concept is one of it chief characteristics and is a source of both praise and criticism, with the former relying on the alleged advantages of flexibility and inclusiveness, and the latter focusing on its tendency for overuse and rhetoric in aiding the cause of business. This dichotomy of opinion is a major part of the history of 'corporate social responsibility' and by extension the Global Compact story.

The different components of corporate social responsibility, including the preceding socially and environmentally destructive behaviour by corporate actors, NGO campaigns, shareholder activism, self-regulation and codes of conduct, developed in

[78] The Globe and Mail, in their 'First-Ever Corporate Social Responsibility Ranking', called CSR "the most important issue of the century…so far",[78] "Report on Business," *Globe and Mail*, (March 2004), cover.

relation to each other throughout the 1980s and 1990s. Globalization was the focal point around which academic and public debate was centered, with opposing theories garnering support from different elements of society. The literature on the topic of globalisation, the sheer volume of which prevents a thorough treatment here, raised a number of questions that were particularly relevant in the formation, and design of the Global Compact. As Georg Levin and David Kell point out, the view developed that globalisation facilitated, if not created vast inequalities in wealth, as well as an imbalance in priorities between a highly developed market system, and a lack of social and environmental measures. This perspective is a foundational belief behind the Global Compact initiative; "the current global governance structure provides extensive rules for economic priorities such as intellectual property rights but lacks commensurate measures to protect the environment and human rights. The longevity of globalization will remain threatened until this imbalance is rectified."[79] The view that globalization, as a process of change, carried with it inevitable 'discontents', came in opposition to advocates of increased global trade and investment, transfers of technology, information and culture.

It is not surprising that the historical context within which the Global Compact was formed affected the direction of the network. NGO campaigns throughout the 1980s and 1990s focused attention on numerous instances of 'bad' behaviour of multinational corporations, and garnered public support which in turn strengthened the CSR norm.[80] Keck and Sikkink argue that Transnational Advocacy Networks (TANs), in which NGOs play an important role, often use images of bodily harm as a way to shift public opinion in

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[79] Georg Levin and David Kell, "The Evolution of the Global Compact Network: An Historic Experiment in Learning and Action", Paper presented at: The Academy of Management Annual Conference: Building Effective Networks, (Denver, August 11-14, 2002), 3

[80] Many examples of these early campaigns can be cited, including attention on businesses operating within South African apartheid rule, and the famous Nestle baby formula campaign that shocked Western consumers.

favour of their campaign.[81] This dual focus on the individual and harm, also present in the UN Declaration of Human Rights, led to a tacit hierarchy among CSR principles in which human rights issues, child labour laws and environmental protection occupied a more prominent position than 'positive' rights that support social and political justice. In a survey and analysis of corporate voluntary codes of conduct, Ruth Pearson and Gill Seyfang show that CSR guidelines tend to converge on media-friendly issues, such as a focus on child labourers with no consideration of women or migrant workers.[82] It could be argued that the Global Compact principles are also inherently conservative because they similarly reflect guidelines that are first and foremost acceptable to business first and foremost. This suggests the Compact is essentially a *reactive* rather than a *pro-active* arrangement.

One of the most common reactions by business to increasing external and internal demands for 'responsible practices' has been the creation of codes of conduct, set up both by individual companies and by collective arrangements of companies within a single industry or across a number of different sectors. These guidelines have come in a variety of forms with different stated goals. As the authors of *Corporate Responsibility and Labour Rights* claim, such voluntary initiatives are "both a manifestation of and a response to, the process of globalization."[83] Within the competing theories about the normative driving forces behind voluntary self-regulation in the form of codes of conduct, it is suggested that the private sector has employed voluntary corporate social responsibility either as: a) a self-protection mechanisms—to shield themselves from negative NGO campaigns or potentially more strict mandatory regulations; or b) a result of genuine awareness of social and environmental responsibilities tied to business

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[81] M.E. Keck and Kathryn Sikkink, "Transnational Advocacy Networks in International Politics: Introduction," in Keck and Sikkink (eds), *Activist Beyond Borders*, (Ithaca: Cornell University Press, 1998)
[82] Ruth Pearson and Gill Seyfang, "New Hope or False Dawn," *Global Social Policy*, (1:1, 2001)
[83] *Corporate Responsibility and Labour Rights*, intro: Jenkins, Rhys, Ruth Pearson, and Gill Seyfang, 1

operations, and the intention to demonstrate this awareness to outside observers in order to create a positive image.[84]

The question of how companies internalize CSR principles relate to the debates surrounding the 'race to the bottom' hypothesis and the counter-argument about an emperical 'race to the top'. Competing perceptions present companies as either profit-maximizing entities that seek to operate in the lowest levels of regulation, or as self-aware actors who desire the stability that comes with higher regulation. Regardless of the ultimate validity of these claims, Levin and Kell point out that the Global Compact contained elements of both sides of the debate. The GC sought to define a standard set of international corporate responsibility guidelines that would discourage firms from seeking out areas of minimal regulation, while at the same time not supporting stricter sanctions for fear that they would contribute to a disengagement from areas of loose regulation and therefore discriminate against those they were aimed at protecting.[85]

In addition to the evidence that suggests CSR ideas have fundamentally impacted business considerations and the market in general, one of the most notorious aspects of 'corporate social responsibility' is the rhetoric that it has spawned. Much of the criticism of CSR has come from the view that although the ideas are important and forward-looking, the practice is toothless and impotent at best, and possesses a devious, underhanded quality that supports big business by offering them an easy public relations solution. These claims are relevant to the UN Global Compact, as critics have charged that through the network, the UN has helped propagate the belief that business can be a reliable partner for social and environmental issues. This argument assumes that business

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[84] These two motivations for firm behaviour relate to Haufler's identification of firm motivation for participating in regimes. Haufler (2003, 2000)

[85] Levin and Kell, 5

goals are at odds with those the rest of the global community, an assertion that holds merit, but may not fully explain the complexity of the situation.

CSR, as an ideational phenomenon situated in what is assumed to be a fundamentally materialist sector—the market—has become a considerable force in the international political economy in the last few decades, and as with most issues, the fans of corporate social responsibility are perhaps overly optimistic and the critics overly sceptical. Yet the significance of corporate social responsibility arguably lies in it's emergence from and affect upon the international business environment, as well as its potential as a growing norm in the global political economy. The importance for this paper is the extent to which the Global Compact, by setting up a voluntary self-regulative entity that puts only minimum pressure on businesses, was affected by the institutional characteristics of CSR.

The context of business self-regulation clearly impacted the institutional choices within the UN Global Compact that operates in part as a self-regulation scheme. Although the UN Global Compact did not develop as an organic private sector collective action mechanism, much of the corporate motivation for involvement in the network appears similar to that of other business-led collective action regimes. Relating to Haufler's theories of private sector regimes outlined in chapter two, Thomas Wotruba states that self-regulation emerges in one of two scenarios: a) where no statutory or regulatory requirements exist; and b) when such standards assist in complying with or exceeding statutory or regulatory requirements.[86] Encompassing a range of social-environmental issues, the self-regulative component of the GC covers both areas by laying out broad objectives that in some cases will supplement government regulation,

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[86] Thomas R. Wotruba, "Industry Self-Regulation: A Review and Extension to a Global Setting, *Journal of Public Policy & Marketing*, (16:1, Spring 1997)

and in other cases mandate action for situations in which the country in unable or unwilling to regulate.

Michael Lenox and Jennifer Nash define industry self-regulation as a voluntary collection of firms seeking to control their collective behaviour,[87] a description matching the intent of Global Compact. Lenox and Nash begin with a widely accepted assumption that industry self-regulation is an attempt to avoid costly regulation and liabilities. However, this is a somewhat problematic observation within the GC because the organisation does not operate in an oppositional position to any particular national government, and the broad goals of the group do not correspond directly to any particular area of regulation. In an indirect sense, it could be argued that companies use the Compact as a *preventative* measure to avoid international economic regulation as well as working through the Local Network channel to influence national and regional governments.[88]

Another motivation that Lenox and Nash suggest induces voluntary self-regulation is based on the desire to increase *competitive advantage* in the social field, essentially "firms will be attracted to self-regulatory programs as a way to differentiate themselves from others within the industry."[89] Although Lenox and Nash specifically analyse the behaviour within the chemical industry, the conclusion that firms will seek to visibly distinguish themselves relates to similar observations made by Simone Pulver in her examination of the climate change debates. Pulver outlines the case in which BP and Royal Dutch/Shell eventually broke with the ranks of the primary organisation, the Global Climate Coalition (GCC), that was lobbying for the interests of large oil

87 Michael J. Lenox and Jennifer Nash, "Industry Self-Regulation and Adverse Selection: A Comparison Across Four Trade Association Programs," *Business Strategy and the Environment*, 12 (2003), 343

88 The problem with the belief that companies use the GC as a preventative measure against international regulation is that this alleged threat is not pressing. Very few observers would predict the international community is ready for any form of robust business regulation.

89 Ibid, 346

companies and disagreed with the organisation's policy on the uncertainty of climate sciences.[90] Although they some recognise potential benefits associated with the evolution of voluntary organisations, Lenox and Nash's primary claim is that within industry organisations there exists the possibility of adverse selection occurring if there is no institutional mechanism to penalize malfeasance on the part of violators.[91] Because the desire to enhance the social-environmental reputation is common to most international and domestic firms, voluntary self-regulative groups attract parties with a range of commitment, including both committed and non-committed members. The UN Global Compact itself is not immune to this classic free-rider problem and has been criticised on this basis.

External and Internal Forces

Understanding the causes of regime formation requires a complicated analysis of objectives and limitations in terms of the stated goals cooperation. Are these goals narrowly or broadly defined and is there a distinguishable normative bent to the statements of purpose? Focusing on the use of language, particularly with respect to stated aims and principles, can be problematic both because it is imbued with different meanings for different users and because it does not necessarily represent the actions or intentions of the actors. Language can however, signal certain underlying norms and ideas that actors feel necessary to pay tribute. Employing the Global Compact's own declarations of intent, guiding principles and principal components is a way to assess the foundations of the Compact and uncover the forces that were and are operating within the network.

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[90] Simone Pulver, "Organising Business: Industry, NGOs in the Climate Debates, *Greener Management International* 39 (Autumn 2002), 56

[91] Lenox and Nash, 346

As previously discussed, the Global Compact has expressed two primary objectives: to "mainstream the ten principles in business activities around the world, and to catalyze actions in support of UN goals."[92] These broad goals, linked to the Compact's equally ambiguous principles and the United Nations own broad goals, is indicative of the choice within the network in favour of *width* over *depth.* The Global Compact was designed to cover all social-environmental issues and include all sectors of the economy under a single network framework, a decision that reflects the intention for the Compact to act as an all-encompassing forum for learning and information sharing rather than enforcement or regulation. This institutional choice can be explained by the internal and external forces acting upon the Global Compact network which preferenced soft power diplomacy. Heavily influenced by the globalized context outlined above, the pressures upon the GC are characterised by: a) institutional limitations; b) internal directional choices within the UN and other leading actors; and c) and external pressure by critics.

The difficulty and near impossibility of forcing international regulation has meant that most international initiatives are severely limited in terms of what they can practically achieve, and from the outset the Global Compact faced similar restrictions. Unable to create international law based on the ten principles and force companies to change behaviour, the Compact was limited to setting up non-compulsory guidelines and instead rely on soft power tactics such as 'naming and shaming' and private diplomacy in spreading norms of corporate responsibility.

Failed attempts in the mid-1970s to design an international code of conduct for business influenced the decision in 1999 to embrace a broad set of guidelines to be voluntarily adopted, interpreted, internalised and enforced by companies. The Global

[92] Global Compact website, About the GC

Compact puts a considerable emphasis on the self-regulatory role of businesses, and critics of the network focus on this aspect claiming that by allowing business the power of self-regulation over social and environmental issues, the UN is 'putting the fox in charge of the chickens'[93]. In an era in which economic liberalism is largely accepted as the way to encourage economic growth, even the UN—with a particular concern for socio-economic issues such as poverty alleviation and environmental sustainability—appears unwilling (and unable) to put strict controls on capital and investment. In his advocacy of the Global Compact, Ruggie makes the claim that "the probability of the General Assembly's adopting a meaningful code [of corporate conduct] anytime soon approximates zero."[94] As Ruggie also notes however, treating the current design of the GC as a second best option to regulation undermines the advantages of the GC as a learning network for participants[95], as well as functioning as a norm entrepreneurial mechanism for future initiatives.

Ruggie claims that an intellectual case can be made asserting the advantages of the Global Compact to act primarily as a learning forum and an open dialogue. The argument is that the GC will "help companies to internalize the relevant principles so that they can shape and reshape corporate practices as external conditions change."[96] Ruggie asserts the belief, shared by many GC supporters, that experience will eventually lead to a collective desire amongst participants for more explicit codification of what are now ambiguous principles. For example, the guideline that encourages companies to support a 'precautionary approach to environmental challenges'[97] purposefully leaves open the possibility to build more strict guidelines within specific environmental sectors. In this

93 Comment, "The UN Sells Out," *Progressive*, 64:9 September 2000

94 Ruggie, John G., "global_governance.net: The Global Compact as Learning Network," *Global Governance*, 7:4 (October-December 2001), 373

95 Ibid

96 Ibid, 374

97 Principle 7, See Appendix A

way, the practical limitation preventing regulation has developed a positive normative slant. A similar practical-normative assumption underlining the GC design is the belief that excluding business from international dialogue is more damaging that offering them a seat at the UN table. It is feared that driving business away may encourage the development of defensive alliances and coalitions which would hinder the overarching social responsibility project.[98] The acknowledgement that few firms would have willingly signed onto or accepted a stricter institutional version of the Global Compact clearly limited the options available to the network's designers.

In addition to the limitations imbedded in the idea of an international corporate responsibility framework, the Global Compact was affected by the internal direction within the United Nations and other leading international actors. As a result of the theoretical and empirical context privileging the position of business, the UN has sought to create alliances with transnational companies for promoting the Millennium Development Goals. As UN Secretary-General Kofi Annan is quoted on the GC's website, "let us choose to unite the power of the market with the authority of universal ideals"[99], a sentiment that Annan has expressed throughout his leadership of the UN. As discussed, economic liberalism and globalization has facilitated a growth in the economic and political power that firms exert both on national governments and on international agreements.[100] With business holding a preponderance of material power, one argument is that Kofi Annan—as a proponent of economic liberalism—was at the mercy of international business and therefore designed a loose forum that pays lip service to CSR demands but still favours the independence and self-regulation mechanisms that were preferred by businesses. The assertion is that corporate *responsibility* as a voluntary

[98] Ruggie (2001), 373

[99] Kofi Annan, GC website

[100] Powerful multinational companies have actively participated independently in a number of global conferences and negotiations (eg. GATT, WTO, NAFTA, Earth Summits)

procedure prevents corporate *accountability*, which would propose mandatory mechanisms undesirable to profit-maximizing businesses.[101]

Secretary-General Kofi Annan, as an advocate for business and non-business partnerships, was the principal entrepreneur in setting up the Global Compact and arranging the participation of labour groups, business associations, and NGOs. This personal leadership component of the GC has been matched by a desire within a number of transnational enterprises to become leaders in the field of corporate citizenship. In constructivist perspectives of inter-state organisations, considerable weight is placed on the importance of norm entrepreneurs in initiating and promoting regimes, and this theory should similarly be applied to the private sector. Leading firms can set a tone for business provided they carry enough relative influence either globally or within their own industry, and it is conceivable that they can forge standards of behaviour that will affect other firms' assessment of interest. This re-evaluation of priorities among leading firms has also coincided with internal changes amongst non-governmental organisations toward cooperation rather than confrontation strategies for advancing their social-environmental goals. The internal shifts within the UN, the business community, and NGOs toward engagement and partnerships, contributed to the forces acting upon the Global Compact. Rather than limiting the Compact, these changes allowed for the development of an innovative network design.

Criticism of the Global Compact also became a significant force that put pressure on the creation and functioning of the network. Development theorists concerned with the effects of foreign direct investment and the economic prosperity of developing countries, put pressure on the international community to regulate the activity of multinational companies throughout the 1970s and 1980s. Development analysts later

[101] Bruno and Karliner, (2002)

opposed strict regulation for fear this would discourage foreign companies entry and operation in developing countries that have lower standards, thereby negatively impacting populations.[102] As discussed, Levin and Kell claim that the latter perspective influenced the designers of the Global Compact in producing a broad framework of principles for companies to follow rather than specific codes. Criticism has also acted as a force affecting the Compact's *functioning*, and as such has prompted structural and operational changes in the network. Many observers were quick to blame the Compact for allowing individual companies to use the UN and GC logo to promote their own products and directly profit from the association. The GCO responded to this criticism and tightened policy on the use of their logo. Due to the nature of its all-encompassing objectives, the Compact has been and will continue to be subject to extensive criticism. The ability of the network, however, to respond and adapt may affect the perceived success of the enterprise.

Within the context of globalisation, privatisation and corporate social responsibility, and further affected by a variety of internal and external forces, the creation of Global Compact was clearly a product of both environmental pressures and personal leadership. It was during his speech at the World Economic Forum on 31 January 1999 that UN Secretary-General Kofi Annan launched the idea of a new form of global governance, asking gathered business leaders to " 'embrace, support and enact a set of core values in the area of human rights, labour standards, and environmental practices.' "[103]

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[102] See for example Jagdish Bhagwati, *Stream of Windows: Unsettling Reflections on Trade, Immigration and Democracy*, (Cambridge, Massachusetts: MIT Press, 1998) and Bhagwati, *Free Trade Today* (Princeton: Princeton University Press,2002)

[103] Taken from the speech by Kofi Annan 31 January 1999, UN Press Release, 1 February 2000

> This year, I want to challenge you to join me in taking our relationship to a still higher level. I propose that you, the business leaders gathered in Davos, and we, the United Nations, initiate a global compact of shared values and principles, which will give a human face to the global market.[104]

According to Levin and Kell, Secretary-General Kofi Annan had four main objectives in the creation of the Global Compact: a) to raise awareness of UN goals and advance the implementation of such goals; b) to enhance the UN's relevance in global affairs that had come under criticism in the 1990s; c) to infuse a new dynamism in the UN through innovative ideas and approaches to handling global problems; and d) to strengthen his own personal leadership role in the link between business and the United Nations.[105] With an early aim to draw business associations and business leaders into the forum, Levin and Kell claim that the GC was intended as a network to embed exchanges between these actors within the set of ten principles, wherein 'embedding' implies "bound[ed] transactions between actors with a set of commonly held values shared by individual organizations, rather than by their representative governments."[106]

Development of the Network

Launched at the conference in Davos in January 1999, the Global Compact began in an environment privileging business priorities, and thus "initially the Compact was dominated by a focus on trade, as business perceived it as a tool to secure and perpetuate economic liberalization."[107] There was early support and assistance for Kofi Annan's project from within the UN agencies; 'demonstrating a cooperative spirit'[108] the International Labour Organisation (ILO), the UN Environmental Program (UNEP), and

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104 Ibid

105 Levin and Kell, 6

106 Levin and Kell, 6

107 Levin and Kell, 8

108 Ibid, 7

the Office of the High Commissioner for Human Rights (OHCHR) worked on setting up a common website devoted to the nine principles. The primary target however, was still the cooperation of the business sector, which came first in an endorsement from the two most prominent multi-sector international business associations—the ICC and the International Organisation of Employers (IOE). Although business associations retained an important role, in November 1999 there was a shift towards a greater involvement for leading CEOs and individual firms in order to supplement some of the limitations of dealing with business on a collective basis. As the 'common denominator voice', business associations by their nature could only offer a moderate position that was acceptable their majorities. As a result, the GC sought to deal with the leading CSR advocates on an individual basis. Furthermore, as Levin and Kell state "business associations are good for outreach and policy advocacy and formulation, but have limitations with regard to implementation."[109] The Global Compact's relationship with business was solidified in April 2000 with at a meeting among representatives of 50 companies, agreeing to the following: a) voluntary compliance to GC principles; b) a scheme to recognise and disseminate good practices; c) learning as the central to the conceptual framework of the initiative; and d) the essentialness of involving business leaders from developing countries.[110]

Having secured the participation of international and national business associations as well as some of the most prominent companies from different industries—a success that was believed would lead to further acceptance by companies looking to become a part of the 'club'—the GC focused on expanding membership to actors in other areas. Informal discussions with labour representatives eased their concerns about the inclusion of social and environmental clauses in trade agreements. The determination

[109] Ibid, 8
[110] Ibid, 9

was that the Compact would place these issues as an absolute priority, irrespective of trade negotiations. Initial ambivalence, at best, on the part of labour was altered after the Secretary-General met with labour leaders in December 1999 and secured the support of unions, primarily because of the GC's promotion of the ILO's core principles.[111]

The designers of the GC also sought to include influential NGO's into the GC forum, Kofi Annan in particular made specific reference to the importance of civil society in a speech intended for the1999 World Trade Organisation Conference in Seattle.[112] The GC invited several NGOs that had met the criteria of "a global reach and the ability to transcend a single issue"[113] to participate in the network, selecting Human Rights Watch, Lawyers Committee for Human Rights and Amnesty International for the area of human rights; the World Wildlife Fund for Nature, the International Union for Conservation of Nature, the World Resources Institute and the International Institute for Environment and Development as environmental NGO representatives; and also Save the Children, the Regional and International Networking Group (Ring) Network and Transparency International for their respective expertise. Since that time, the number of active global and local civil society groups has increased substantially to over 200 participants. The move to include NGOs into the Global Compact, opposed by the ICC but encouraged by individual business leaders, created friction within the network with regard to the 'appropriate interaction' of different participants. These tensions have dissipated over the last six years yet there is still debate from both business and civil society about the particular roles for each within this multi-stakeholder organization.

A year and a half after the idea was publicly introduced and support was garnered from relevant affected parties, the operation of the Global Compact was launched, with

[111] Levin and Kell, 8

[112] This particular speech was later published as an editorial piece in the Wall Street Journal, Levin and Kell, 8; see following link: *WSJ* Op-Ed 1999: http://www.un.org/Overview/SG/99113014.htm

[113] Levin and Kell, 9

initially several hundred companies, business associations, labour organisations, NGOs and academic institutions voluntarily signing up. The Global Compact, through its first nine principles, did not seek to advance a new agenda of rights and responsibilities for international actors, rather it drew on existing conventions, norms and treaties that had been incorporated into the UN framework. Using previously established codes was a clear attempt on the part of the Compact's designers to embed a sense of *legitimacy* into the framework.

The later development of local and regional networks came from a number of sources in different countries and regions, dependent of the level of economic development. The recent GCO report on networks suggests the following about the location of initiative: in emerging economies where private business has achieved some degree of economic success, networks have been driven by local businesses struggling to gain social and political recognition by their home governments and populations; in transition economies it has been 'champion companies'—large domestic firms—motivated by a desire to be perceived as a force for modernisation and supported by the UNDP that have been behind network creation; and in least developed countered, where there is a lack of vital domestic companies and foreign direct investment, it has been primarily the UNDP itself that has promoted the creation of networks to facilitate responsible investment. In developed economies on the other hand, multi-stakeholder dialogue and corporate social responsibility ideas predate the GC and governments have developed 'appropriate laws' and the means in which to enforce them[114]. In this context, networks are driven by business seeking to be perceived as part of the solution, rather than risk accusation at being part of the problem. The evidence seems to indicate that the

[114] The 'appropriateness' of developed countries laws is debated by those who argue that even in developed countries, regulation of private business does not prevent detrimental social-environmental side-affects.

greater the degree of economic development, the more likely that the initiative to create local networks will come from private sector actors attempting to shape a favourable perception of themselves. This pattern appears to reaffirm theories asserting the primacy of legitimacy-seeking as the motivating factor behind most corporate involvement in environmental and social issues.

Dynamics of Formation

The formation of country and regional networks, in many cases with the impetus coming from the private sector, gives the Global Compact an element of authentic collective action. Corporate actors, alone or in a joint capacity, have taken the initiative to support and actively promote the development of these locally-based groups in order to signal their commitment to UN Millennium Goals and a common interest in responsible social-environmental business practices. The recognition among many firms in both the developed and developing world is that it is in their self-interest to participate in an alleged CSR regime that operates at both a local and international level. As a voluntary and universal network, the Compact arguably offers a unique opportunity for companies seeking to improve their domestic and international profile through an acquisition of legitimacy and an opportunity for knowledge-sharing by connecting members to other 'like-minded business actors', UN agencies and civil society stakeholders.

Despite this element of bottom-up, business-led expansion within the network, the Global Compact does not fit the model of a private sector regime; the proposal for the network did not emerge from business and business does not exclusively control the agenda. However the execution of the ten principles, reliant on the voluntary self-regulation of individual participants with or without a third-party monitoring process, mimics the functioning of many business alliances, particularly multi-sector groups.

There is clearly an economic motivation behind business acting collectively under the rubric of the Global Compact—essentially vying to enhance their sales position either within their own domestic markets or to large potential corporate partners. Yet, as Harrison and Easton claim in their study of business environmental regimes, the material incentive describes only the precursors for collective action, and does not explain the *social process* and the escalating pressures to make strategic alignments.[115] It is the surrounding context of an increasing number of business partnerships and a growing corporate social responsibility norm that has provoked a desire on the part of numerous firms to work collectively within the hybrid model of the Global Compact.

As a voluntary network of competing interests that are purportedly seeking a common goal for the future of responsible business practices, the Global Compact fits the basic criteria of an intentional collective action arrangement. Composed of supposed like-minded participants that choose to be involved in the network, there appears to be an organic quality to the GC. Yet the network did not actually develop in a bottom-up manner, but rather was created at the directive of the UN Secretary-General. In this sense, the Compact contains an aspect of hierarchy in its formation that runs contrary to theories and examples of peer cooperation, and calls into question the collective component. However, theories suggesting collective action emerges from the directive of a hegemon also do not apply to the creation of the Global Compact, as the UN (and Kofi Annan specifically) would be ill-defined as a hegemon. The UN and those at the helm cannot force compliance among states or other non-state actors—they can exert only a limited amount of soft power by affecting or setting the tone of international relations.

[115] Debbie Harrison and Geoff Easton, "Collective Action in the Face of International Environmental Regulation," *Business Strategy and the Environment*, 11:3, (May/June 2002)

Organisational theories stressing the need for a dominant actor to stimulate and sponsor the creation of a regime seem inapplicable in their basic form, yet if altered slightly their relevance increases. The UN itself contains an element of moral authority, particularly in the area of social concerns in which states tend to be more willing to give up a degree of autonomy and defer to the organisation for its expertise. In this capacity, the UN arguably functions as a legitimacy-grantor and moral hegemon, encouraging compliance from targeted actors through its ability to bestow legitimacy on those that openly support and promote UN principles. The Global Compact initiative reaffirmed this role for the UN, participating companies are given explicit acknowledgement as corroborators and implicit endorsement as models of responsible business. Comparable to how material benefits are derived from being included under the umbrella of a hegemon, ideational benefits can be gained from a visible alliance with the UN. Furthermore, although it does not derive material benefits, by forging a network that includes business and civil society in a corporate social responsibility forum, and placing itself as the cite of such dialogue, the UN was arguably seeking to its significance in cutting edge global affairs.

Focusing solely on the top-down development of the Global Compact is not necessarily an accurate representation of the extensive consultation that was carried out in the early phase of the network nor does it illustrate the way in which the GC currently functions. The institution, from its very inception, has relied on voluntary participation from the business sector, and while the idea was spearheaded by the UN Secretary-General and one of the primary aims of the organisation is to catalyze action in the furtherance of UN millennium Goals, establishing the overarching direction of the group is the extent of UN control. The network style structure of the Compact means that most important functions for the center are agenda-setting and maintaining links with the periphery. Beyond that, the members are separate entities that operate as self-governing units. Signing up to the Global Compact, individual firms have a responsibility to integrate the ten principles into their business practices, but the specific method to achieve this is not elaborated upon. Companies are expected to choose their most feasible and effective course of action. As a result the GC, composed of members who are themselves multi-dimensional actors comprised of many different voices, more closely resembles a set of loosely connected self-regulating organisations than a highly institutionalised group of like-minded actors with a distinct common interest. The emphasis that the Compact has placed on local networks further reflects the desire to transfer power to the participants and encourage the development of leadership on a small-scale.

Unpacking the creation and design of the Global Compact and analysing how and why the network formed the way that it did, relies on an explanation of a number of external and internal factors. As it stands, the Compact as it stands is a product of the international environment within which it developed; yet it was the specific choices made within this context that favoured a particular direction over other possible options. The Global Compact emerged in a period of globalisation that privileged the position of the private sector and has increasingly transferred authority into their hands, a move that was encouraged through the creation of business associations. The growing popularity and demand for corporate social responsibility was both a result of this privatisation as well as a move to legitimize the leadership role of the private sector and promote self-regulation. Within this context, the GC adopted many of the characteristics of the new business cooperative regimes, as a result of a combination of optimism about self-regulation and a practical recognition that stricter international codes would not be supported. The structural design of the Global Compact however, cannot be understood as simply kowtowing to business, but rather as an outcome of both institutional limitations and a 'spirit of cooperation' between business and non-business actors endorsed by the UN Secretary-General's personal agenda. This reflects Pattberg's theory that private governance is a product of privatisation and the move toward cooperative solutions in the international political economy. In addition to these forces there was also pressure for the UN to demonstrate its continued relevance in a new international environment and the formation of the Global Compact, as a new design that functions through a fluid model of cooperation, was used as a signal of the UN's ability to change and remain relevant.

CHAPTER 5: Implications and Conclusion

Assessing the overall significance of the UN Global Compact requires an analysis of both the meaning and implications of the network, the former of which is determined by a study of the nature of the Compact and the latter derived from an assessment of its institutional impact. Having thus far explored the formation of the GC and situating the initiative within a context of shifting patterns of global governance, private authority, and individual motivations, this concluding chapter will examine some of the major practical and theoretical implications of the Global Compact.

Measuring the functional impact of any institution is problematic because an evaluation necessarily involves a normative judgment of observable actions. This is further complicated in the case of the Global Compact whose performance is based on judgements of norm diffusion and learning objectives that cannot be quantitatively calculated. Any qualitative changes that the network has encouraged, either inside a particular company or within business practices more generally, are difficult to gauge. An additional problem for determining the impact of the Global Compact is the network's relative infancy vis-à-vis other international institutional mechanisms. Without any explicit outcome-oriented goals and operating only since 2000, it is difficult to claim with any certainty the tangible impact of the Global Compact on international affairs. Nevertheless, a holistic look at some of the existing and potential *implications* of the Compact yields insight into the significance of this 'multi-sector learning forum' and raises questions for further research.

The most visible area of direct impact lies in the potential ability of the Compact to affect the behaviour of individual firms or their calculation of interest. An underlying aim of the GC (and corporate responsibility principles in general) is to undermine the destructive behaviour of industry and encourage a mutually beneficial relationship between firms and societies.[116] This micro-level objective of the GC, despite an emphasis on tangible outcomes, is difficult to evaluate accurately and objectively as a result of the perception and time factors listed above. There are however, theoretical implications that can be inferred from other analyses about patterned and learned group behaviour and comparing the Global Compact to other business associations yields insight about the motivations of the private sector and the possibility for the GC to affect change.

Simone Pulver, in her analysis of industry NGOs in the climate debates, claims that business associations provide three services for their members: access, consensus, and an anti-politics function—where companies can participate in the political process without explicitly appearing as political agents.[117] Pulver argues that this last function was problematic during the climate debates because of a political-cultural division about the appropriate role of business; the resultant inability to organise consensus exposed the weakness of industry associations' to fill the different expectations of members.[118] The determination of 'success' in terms of the Global Compact is considerably more difficult to chart, in part because there is no succinct end goal for business participants (or other stakeholders) and there is no obvious comparable or competing institution against which to measure relative success. Nevertheless, it could be argued that the GC provides the same three services that Pulver outlines.

The first function that Pulver describes appears directly applicable to Global Compact, as participating in the network clearly allows for companies to *access* the international community as well as the general debate about the role of business in

116 Including behavioral change as a goal for the Global Compact may be contested by other GC analysts, I include it however because the tone runs throughout the operations of 'learning' and 'sharing'.

117 Pulver, (2002)

118 The political-cultural discrepancy emerged among members of the primary business alliance (the Global Climate Coalition) over what the appropriate role of business was—American-style lobbying or the advisory role that European business had come to occupy.

society. With respect to the *consensus* service that business seeks through alliance-creation, a function that is particularly tough to achieve within industry because of the variation between firms, the design of the GC—with a top-down delineation of the network's goals and loose requirements for member-firms—minimizes possible conflict between companies. Furthermore, the self-regulation characteristic of the Compact allows for firms to ostensibly pursue the same objectives without necessarily coming to a universally agreed upon consensus as how best to do this; essentially self-direction negates the need for consensus on procedure.

The potential for internal conflict as a result of the third anti-politics function, which Pulver claims is especially likely within business because of the disagreement within the private sector about their specific role in the political process, is also arguably reduced by the design of the Global Compact. The network purports to be a member-driven organisation in terms of activities, but because the framework was laid out prior to the ascension of individual firms, it is likely that there will be fewer disputes over the position of industry.[119] The Compact offers companies the opportunity to interact with each other, civil society, and UN agencies, under the observation of government representatives, but gives them neither a direct lobbying nor advisory link to state governments.[120] The stated intent is the facilitation of a forum for discussion and learning, and it is in this capacity that the GC provides an anti-politics role, allowing business access to the international stage without appearing as political agents. The normative impact of this function of the Global Compact is contested, with the determination dependent on a judgement over whether the UN ought to engage business as a partner or work to regulate the private sector.

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119 Nevertheless, there has been some conflict and dissatisfaction with respect to the different levels of commitment among GC participants.

120 It should be noted here that while the Global Compact is not a forum for states, regional GC offices have coordinated partnerships between business and states, particularly within developing countries.

The debate over how best to change behaviour of targeted actors is one that spans a number of different academic fields, often framed as a question of whether the most appropriate course to take is sanctions or constructive engagement. The most common usage is in reference to groups or states whose actions are considered to run counter to the norms of the international community, often with respect to their treatment of populations—their own or others. Despite the fact that the actions of corporate actors are generally considered less severe than 'rogue states' or non-state military groups, this issue resonates with the corporate social responsibility debate and the growing acknowledgement of the potentially detrimental role of large domestic and multi-national firms. In this comparison, external regulation operates as 'sanctions and 'working with business' (including most CSR activities) as 'constructive engagement' operations. Andrew Kuper asserts that there has been a general shift away from 'confrontation' models of dealing with corporations in favour of various 'engagement' style approaches. Although some NGOs still use informal tactics such as 'naming and shaming', they have also focused a greater percentage of their efforts on dialogue and cooperation with corporate partnerships.[121] Reflecting theories and observations explored in previous chapters, Kuper claims that the reason for this shift is found in the sheer economic strength of corporations and an acceptance of this reality on the part of governments and civil society.

Related to the issue of constructive engagement, Pulver's criticism of the role of business associations in the climate debates points out that direct participation on the part of business may have advantages through: a) improving the flow of information by broadening the range of the business perspectives; b) offering the flexibility of opinion to individual private sector participants; and c) showing exactly where each company stands

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[121] Andrew Kuper, "Harnessing Corporate Power: Lessons from the UN Global Compact", *Development*, (47:3, 2004), 10

instead of grouping them into a collective. This last point is arguably beneficial to the larger international community and improves the likelihood of peer pressure and external shaming for those companies failing to meet certain criteria while at the same time praising the leaders of social and environmental innovation. Although it retains a connection to business associations, the main source of engagement within the Global Compact is based on the relations between individual corporate participants. As an ongoing global governance mechanism, the GC has modelled itself as a network whose success or failure is focused on individual participants rather than acting as a single, unified force in the international political economy.

Even though the Global Compact does not purport to be a body for regulation, it is still subject to issues of free-riding that arise within voluntary mechanisms. There has been recognition within the network that without change the initiative will become stagnant as no participants are held accountable for their actions. The recently released document stating the intended plan for the future of the Compact represents an acknowledgement of the some of the problems within the network—such transparency, free-riders, use of the GC logo, and funding—as well as an explicit attempt to actively combat these problems. The impact of these changes remains to be seen, yet their significance may lie in what they signal about the nature of the Compact.

According to Pete Engardio, supporters of Kofi Annan's initiative were hopeful from the beginning about the ability of the Compact to enhance its internal mechanisms and expand the potential for monitoring the actions of corporate members,[122] and the changes announced in September 2005 could be seen as a step toward a more robust version of the current design. On the other hand however, the new framework does not propose to fundamentally change the aspects of the Global Compact that critics

[122] Pete Engardio, "Global Compact, Little Impact," *Business Week*, (Issue 3891, 2004a)

concentrate on, and the overarching function of the network remains an open and voluntary 'learning forum'. In this perspective, the ambiguity of the ten principles and the loose design of the group limits the potential for the Compact to act as a leader in advancing the practice of corporate social responsibility. The GC cannot compel firms to change their business practices, and therefore its significance relies on the normative and cognitive impact that comes from its position as a multi-stakeholder dialogue. This type of impact however, should not be underestimated.

More likely to appear in the long-term, normative and cognitive implications can be classified as the second kind of impact that can result from the formation of the Global Compact. Building on the above discussion of how participation within the GC network affects the behaviour of individual firms, the potential for the Compact to play a role in the diffusion of corporate citizenship norms is contested among observers. The theoretical question of the quantitative or qualitative impact that a voluntary, self-regulating regime can have on the process of normative or cognitive change is especially relevant to the study of the UN Global Compact, a network that is openly committed to become a force for learning and knowledge-sharing. While a full analysis of this question is outside the scope of this study, the issue of impact is inextricably linked to institutional formation. Understanding the significance of the Compact's creation implies a necessary consideration of the role that it could have on international politics. Both emerging from and contributing to existing trends in international politics, potential macro-level outcomes of the Global Compact network include: a) structuring the process of corporate social responsibility norm diffusion; b) changing the nature of interaction between firms, NGOs, and international organisations; and c) fuelling the transfer of authority to private sector actors.

In terms of possible norm diffusion through the membership of the UN Global Compact, there exists substantial theoretical discrepancy over the extent to which organisational formation can affect behavioural and cognitive norms. Keck and Sekkink's celebrated analysis of the process of 'norm cascades' within the public sector[123] is arguably applicable to private companies, who operate as social actors as well as economic ones in pursuit of economic goals. The growing acceptance of CSR principles among the business sector could be perceived and studied as an example of such development. The problem with applying this theory of norm diffusion to the Global Compact is that the network has been geared toward expansion and designed to include all willing business participants, which as Pete Engardio mentions, precludes the possibility for norm cascades to operate in an organic growth of membership.[124] The Compact has been set up with 'lowest common denominator' criteria and therefore cannot function as an elite group to which outside actors aspire.

The possibility for the Global Compact to affect the norms of business behaviour and spread ideas of corporate social responsibility have become synonymous with estimations on the ability of any voluntary organisation, to act as an effective mechanism for change. Recent findings by scholars such as Lenox and Nash[125] on questions of adverse selection within industry organisations lends credibility to a widely held belief that allowing business to regulate themselves will not yield the most socially favourable results and that voluntary action on the part of business is little more than a public relations campaign, a view that has been the basis of considerable criticism of the UN Global Compact. Aiming for a broad membership, the GC does not impose a specific

123 Keck and Sikkink, (1998)

124 Engardio, (2004a)

125 Michael Lenox and Jennifer Nash have looked specifically at the tendency within the Responsible Care Program (a business initiative often given praise) to include higher than average industry polluters. Their conclusion expresses a need to include rigid monitoring and sanctioning schemes. Lenox and Nash, (2003), 347

standard of behaviour and therefore opens itself up to the inclusion of participants with varying intentions, a characteristic that John Elkington claims puts the UN's credibility in a 'dangerous, exposed position'.[126] By neglecting the importance of standards of enforcement and transparency, Elkington argues that the Compact has no way of keeping companies honest and therefore will ultimately threaten the legitimacy of the whole project.[127]

According to Engardio, the disillusionment with the Global Compact enterprise is largely because of the priority placed on expanding membership rather than ensuring commitment to the ten principles.[128] The decision to make the GC guidelines 'aspirational' and non-binding was based on a realist determination that few companies would sign on otherwise.[129] Engardio, building on the complaints of GC critics, highlights the fact that because there exists no clear reporting or compliance standards, there is no way to differentiate between the levels of commitment. "While some companies publish extensive corporate responsibility reports, including BP PLC and Nike Inc., many others merely state that they follow Compact principles and list limited examples in annual reports."[130] The problem lies in that arguably they all equally benefit from the legitimacy attached to a participant status in the GC. The impressive span of membership—currently including over 1700 corporate members—is undermined by its inability to compel change within these members. More often than not, corporate action within the network merely reflects previously established policies of individual members. Sandra Taylor—representing Starbucks, a relatively new GC member —stated that "the

126 Taken from Pete Engardio, "Two Views of the Global Compact", *Business Week Online*, (2004b)
127 Ibid
128 Pete Engardio, (2004a)
129 Based on an interview with the GC Head of Office, George Kell, taken from Kuper, 11
130 Ibid

Compact principles don't require us to do anything differently,"[131] indicating the different levels of commitment in the network, and calling into question whether the Global Compact is likely to be a driver of change within international business.

The most common criticism hurled at the UN Global Compact is that it is essentially 'toothless' and as such is irrelevant. There are several related aspects to this criticism aimed both at the voluntary nature of GC guidelines and at self-regulation as an enforcement mechanism in general. Voluntarism is an easy target for the network, as it implies that alleged fundamental human and environmental rights and responsibilities that the institution claims to seek protection for, are only adhered to when convenient for and at the whim of individual firms. Just as voluntarism is easy to criticize however, the simple response to this states that the only way companies willingly abide by guidelines is if they are able to set them themselves. In addition, the claim that companies will not adopt responsible practices unless they are externally regulated and enforced also does not account for the complexity of the market in which many transnational enterprises are increasingly concerned with reputation and engage in cooperative behaviour that involves setting standards, 'naming and shaming,' and taking progressive stances to improve their business image, nor does it acknowledge the ease with which companies can violate mandatory regulations.

Related to the question of whether strict regulation is the best way to initiate change, an interesting and analytically relevant study comparing the toxicity of the Rhine River to the Great Lakes, Marco Verweij shows how looser environmental regulation in the Europe has led to cleaner waters in the Rhine than the Great Lakes. In their fight against the Clean Water Act, US corporations that operate near the Great Lakes were at the forefront of industry's resistance, whereas Rhine River corporations' water protection

[131] Taken from Engardio, (2004) "Global Compact, Little Impact,

measures often went beyond existing legal norms. This finding "offers more ammunition for the argument…that the adversarial policy style followed in the US may in fact lead to less environmental protection than the more consensual style that has evolved in Western Europe and Japan."[132] While this case may not extend to all policy areas, it indicates that commonly held perceptions that voluntary codes of conduct and self-regulation allow for corporations to run roughshod over existing behavioural norms are not necessarily empirically proven. The potential for voluntary action to bear significant and possibly more expansive results should be considered in an assessment of the practical implications of the Global Compact.

Praise of voluntarism, however, needs to be checked through noting that by virtue of its basis in 'trends', the 'spirit' of voluntary self-regulation is difficult to sustain without regular monitoring or enforcement, a claim made by both critics and supporters of the Global Compact.[133] The Compact's reliance on self-regulation indicates a tacit acceptance on the part of the designers that this form of global governance will if not produce immediate change, insure long-term results and individual compliance with the broadly stated principles. Yet there has been considerable criticism raised by observers of the GC that a number of the companies that have signed onto the network have violated at least one of the nine principles since they have assumed participatory status.[134] The lack of information available about how well participants have implemented principles undermines the possibility of internal 'shaming' which has come to occupy a prominent

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[132] Marco Verweij, "Why is the River Rhine cleaner than the Great Lakes (Despite Looser Regulation)?" *Law & Society Review*, (34:4, 2000), 1009

[133] Steve Hughes and Rorden Wilkinson, "The Global Compact: Promoting CSR?" *Environmental Politics*, (10:1, Spring 2001)

[134] Bruno and Karliner (2002) claim that while instances of violation can not be found on the GC website, at least two business participants, Nike and Rio Tinto have violated their agreement to adhere to all nine principles.

position in discussions about the social role of international organisations.[135] Self-regulation however, should not be altogether dismissed. As Haufler notes, "at first glance, some might argue that industry self-regulation is another way of saying no regulation. But that is clearly not true given the growing sophistication and intrusiveness of some of these initiatives."[136] Furthermore, criticising the GC for its inability to enforce compliance misconstrues the essential aims of the network as primarily a 'learning forum'; it is misleading to condemn the Compact for not fulfilling a role for which it was never intended.

In contrast to the argument that without enforcement and transparency the GC will be rendered a futile initiative, the socio-institutionalist perspective of the Global Compact highlights the network's role in creating a dialogue. As a self-declared learning forum, the GC's potential significance may lie in the partnerships that can be developed among participants. This focus on *process* rather than outcome-driven goals rely on the resources and expertise of GC partners; NGOs are expected to remain as the 'watchdogs' and business partnerships are expected to advance the diffusion of knowledge and technology in order to promote CSR practices. The network framework operates on both functionalist and constructivist assumptions—that the sharing of functional information about practices through the required posting of steps taken by businesses allows for the advancement of the nine principles. Furthermore, the emphasis on the GC's website to act as a community posting board, [137] relying on a belief that "good practices will drive out bad ones through power of dialogue, transparency, advocacy and competition,"[138] reflects the horizontal rather than hierarchical design of the Compact.

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[135] The only information available on the success or failure of GC implementation is that willingly submitted by participants.

[136] Haufler, (2003), 250

[137] Hughes and Wilkinson, (2001)

[138] John G. Ruggie, (2001), 373

The belief that the formation of the Global Compact and the emphasis on dialogue will induce positive change within industry relates to the question of the kind of impact the GC will have on future *interaction* between actors. One of the fundamental goals of designing the Compact as a network was to establish a non-hierarchical structure within which actors could forge cooperative relationships. Although it is difficult to determine with certainty whether this has been successful, the development of Global Compact Regional Networks, often at the initiative of business indicates that there has been steps toward creating partnerships under the rubric of the Compact's ten principles. There is however, a problem with identifying the causal connection. As shown in previous chapters, the Compact itself is an example of the shifting nature of interaction between private sector and public sector actors on the international stage. It is unclear therefore, whether the GC's design is a result of changes that were already occurring or whether it has contributed to this move away from confrontation. In terms of the implications of these changes, analysts are divided over how this will affect actors and international politics more generally.

Marina Ottaway examines the trend of international organisations' institutional cooperation with business and civil society as a political solution she calls 'tripartite corporatism'. The UN Global Compact, by including these groups, represents an example of international corporatism. Political corporatism has a history within national governments (primarily in European and Latin American governments) that sought to de-emphasize internal conflict between labour and business and is generally treated as a rational-functional response to competing interests. The new international form, "like the corporatism of old...has both a progressive aspect to it—the attempt to provide innovative solutions for new problems—and a defensive one—the attempt to defuse the criticism of radical opponents by co-opting the more moderate groups."[139] In a similar way, because of the polarity of opinions about business alliances within civil society, the Global Compact has created a division between the NGOs on board with the network, and those that reject the official inclusion of business interests into the UN[140]. By isolating certain NGOs and elevating others, it could be argued the GC is not actually contributing to change, but merely reflecting existing alliances and divisions.

Theories of functional co-option claim inclusion undermines the role that oppositional groups can have on the direction and outcome of an organisation and assumes that given a role, confrontation will cease and harmony will prevail. This creates a potential problem for organisations that have traditionally gained their public legitimacy from visible oppositional campaigns, a description fitting many international NGOs. However, in contrast to the predicted result that corporatism will weaken the position of excluded groups, Global Compact directors have addressed some of the concerns of critical NGOs and incorporated several of their complaints into structural changes. For example the GC has adopted explicit self-imposed rules that disallow funding for the network from business, and prevents corporate participants from using the GC logo for marketing purposes.[141]

Also related to the question of corporatism, the desire within the Global Compact to increase the size and quality of participation seems to conflict with corporatist theories that rely on exclusivity. This sentiment however, is not held universally among members and firms acting as 'competitive players' seek to minimize the levels of participation in

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[139] Marina Ottaway, "Corporatism Goes Global: International Organizations, Non-governmental Organization Networks and Transnational Business," *Global Governance*, (7:3, September 2001), 268.

[140] For example highly visible NGOs such as Amnesty International and the Human Rights Watch have signed on while others such as Greenpeace have criticised the UN's partnership with business.

[141] Levin and Kell, (2002)

the Global Compact, preferring the network to remain limited.[142] This issue of competition among business actors is one of the challenges that the GC has had to face with respect to participation in the network. One of the assumed problems with using inter-state and non-governmental organisational theories for understanding group behaviour within the private sector is the issue of competition, and the disincentives for cooperation that occurs within industry. As Levin and Kell point out, leading firms within the Global Compact are not necessarily supportive of the notion of information sharing that the network purports to advance, and rather operate under the rationale that visibly distinguishing themselves from other firms gives them a competitive advantage.[143] The concern within the business sector for relative gains, even with respect to the ideational notion of 'best practices', seems to limit the likelihood for industry norm entrepreneurs to take a leadership role within their sphere of influence. It should be noted, however, that there are many instances in which a whole industry is affected by negative campaigns or images and as shown in chapter two firms have an incentive to cooperate on such 'joint goods'. Furthermore, the GC was designed with an appreciation of the preservation of distinctiveness; companies adopt voluntary measures on an individual basis and are judged within the network based on their particular performance, thereby theoretically allowing the continuance of competition to drive the ratcheting up of best practices.

The possibility for the Global Compact to create incentives as well as an institutional space for cooperation between participants not only changes the nature of interaction, it also potentially leads to changes in authority. This implication is arguably the most important for understanding the broad, long-term significance of the network. As explored earlier, the formation and design of the Compact can be explained by a

142 Ibid, 24
143 Ibid

number of environmental factors that have led to a systematic increase in the authority of the private sector. The GC network therefore, can be seen as a non-traditional development that incorporates aspects of the private governance phenomenon into the traditional international institutional framework of the United Nations. It is possible that through the inclusion of oppositional groups, the Global Compact will be able to encourage positive partnerships that acknowledge the economic power of the private sector, but still maintain UN moral authority over the prioritization of principles, and the ability to grant legitimacy to those actors as it sees fit. It is also possible, however, that fears the UN is aiding in the transfer of unchecked authority to the private sector will be borne out, and that association with the UN will give firms tacit legitimacy for little or no action. Without any sort of regulation or enforcement, the Compact has few tools with which to compel changes in business behaviour, and therefore relies on processes of learning and dialogue in order to induce normative and cognitive changes within firms. This form of 'soft power' should not necessarily be ignored, yet it allows for the possibility that the Global Compact will become an ineffective and insignificant bureaucratic institution.

The question of what role the Global Compact will play within an environment of increasing private governance is one to be examined at a later point in the network's history, at this time such a determination is only speculation. Understanding the potential micro and macro implications that may result from the Compact however, supplements this analysis of the significance of the GC's formation. Although it is unclear the extent of impact, the assertion here is that the UN's hybrid institutional mechanism will, on a micro scale, affect participants' actions or assessment of interest, and on a macro scale, affect the norms within corporate citizenship, relationships between public and private sector at the international level, and within the transfer of authority. All of these potential areas of impact are closely connected; for example the ability or inability for the GC to change the practices of individual actors will affect the overarching legitimacy of the network and therefore the capacity for it to grant legitimacy to its participants. Furthermore, the way in which Compact changes the nature and intensity of interaction between actors will in turn influence the way the norms of CSR are interpreted, or the perception of international authority and private governance. With the internationally recognized UN stamp of approval on a voluntary, self-regulative mechanism, the Global Compact is de facto normalizing the systemic shift toward private governance.

There are a number of foreseeable outcomes for the Global Compact initiative, and whether the Global Compact lives up to the expectations of its creators and become an important forum for discussion of social-environmental issues between a wide variety of international and regional actors relies on the perception of the observer. A consideration of the meaning and value of the GC's potential impact is based on normative judgments about the different aspects of the Compact—the reliance on voluntary self-regulation, learning and dialogue; the consequences of cooperation over confrontation, and of universal inclusion; and the implications of fostering a system that shifts authority to private actors. John Ruggie, a pre-eminent scholar who has supported the GC and a current member of the Advisory Council, claims that the framework chosen for the network was based on realistic and ideational considerations of how best to achieve an effective corporate social responsibility solutions.[144] One of the Compact's primary practical concerns that promoted a self-regulative regime was resources. There are over 65,000 transnational corporations and monitoring the operations of all of these would be financially and bureaucratically impossible for a UN body, considering the resource problems that the organisation regularly faces on less ambitious tasks.

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[144] Ibid

Furthermore, the claim is made that although the GC is not designed to replace government action, the efficiency of the network offers a speed that cannot be achieved in government, and even less so in inter-governmental frameworks, and as Ruggie notes "we are in a bit of a race against the dock"[145] in terms of advancing best practices.

In addition to the practical limitations of governmental and intergovernmental regulation, liberal-economic environmental constraints limited the available options for the Global Compact's mandate. The combined economic-political clout held within the private sector prevented stricter controls on business and predominately liberal economic values created similar resistance outside of industry. Past failures to maintain institutional checks on the actions of international business further contributed to the institutional choice of a voluntary network design that focuses on learning and knowledge-sharing. As John Ruggie stresses, there are short and long-term benefits to be derived from embedding the general principles of the Global Compact within international business, as well as mounting evidence of the importance of multi-sector partnerships, especially those between the public and private sectors.[146] As a new and institutionally progressive concept, the UN Global Compact offers a modern and 'globalized' means for dealing with many of the issues that emerge from an increasingly prominent and powerful private sector. According to Levin and Kell, "the greatest advantage of the network model is the flexibility that has enabled the initiative to transform itself and to overcome critical shortcomings."[147] Yet, if the Compact remains a watered-down version of its original intent, the significance of the initiative could be marred by an inability to affect positive change. Whatever the theoretical, empirical and ultimately normative assessment of impact yields, it is clear that the formation of the

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145 Ruggie, "Sustaining the Single Global Economic Space," *UN Chronicle*, (37:2, 2000), 37

146 Ruggie, "Reconstituting the Global Public Domain—Issues, Actors, and Practices," European Journal of International Relations, (10:4, 2004)

147 Levin and Kell, 21

Compact indicates a significant shift in the international institutional environment. What has been shown here is that not only does the GC reflect environmental trends, because of the legitimacy attached to the project, the Global Compact will also contribute to the continuation of such changes toward new models of governance with an expanding role for the private sector.

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APPENDIX A

The Global Compact's Ten Principles

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: eliminate discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies

Anti-Corruption

- Principle 10: businesses should work against all forms of corruption, including extortion and bribery