

Why Corporations Volunteer for the
United Nation's Global Compact:
Final Report

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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.

Kofi A. Annan, United Nations Secretary General

The realization of this objective will call for an enormous economic, strategic, and political strength that can only be mastered by a broad-based social alliance.

BMW's Clean Energy Project Case Study on the Global Compact website

The highest profile [corporate] partnership is the Global Compact. This asks business to adhere to nine principles derived from key UN agreements and is becoming a general framework for UN cooperation with the private sector.

Kenny Bruno, CorpWatch

INTRODUCTION

On January 31, 1999, a new relationship between the United Nations and the global business community was born. World business leaders were challenged to endorse nine values and principles in the areas of human rights, core labour standards, and human environment within their respective companies. Corporations were encouraged to turn concepts of corporate citizenship and corporate social responsibility into global values.

This paper attempts to explain why a multinational corporation would volunteer for the Global Compact, as the Compact is but one vehicle to portray a corporation's "human face". The findings from this paper are valuable to a variety of actors. Firstly, they can be used as market research for the United Nations to help promote the Global Compact to corporations. Secondly, they can provide evidentiary support for possible Global Compact reform currently advocated by interest groups such as CorpWatch. Thirdly, they can help federal governments create the right incentives for corporations to join the Compact. For instance, there are currently no major Canadian multinational

corporations¹ in the Global Compact. The domestic corporations' disinterest in new global values should be of concern to the Canadian government because it can potentially lead to corporate and national crises. It is in the interest of all federal governments to have their multinational corporations involved with projects of global scope such as the Compact.

The paper will first introduce the United Nation's Global Compact, including its inception history, general schema, membership process, and problems the Global Compact team has encountered. Then, implementation theory will be surveyed to identify other alternate institutions yielding similar results to the one in place. Finally, the actual Global Compact decision will be examined and an analysis will be provided before concluding remarks.

GLOBAL COMPACT

The Global Compact was introduced at the 1999 World Economic Forum by United Nations Secretary-General Kofi A. Annan. As stated on its website², "the Global Compact is not a regulatory instrument or code of conduct, but a value-based platform designed to promote institutional learning. It utilizes the power of transparency and dialogue to identify and disseminate good practices based on universal principles. The Compact encompasses nine such principles³, drawn from the Universal Declaration of Human Rights, the ILO's Fundamental Principles on Rights at Work and the Rio Principles on Environment and Development. In addition, it asks companies to act on

¹ Within the Global Fortune 500.

² <http://www.unglobalcompact.org>

³ See Figure 2.1

these principles in their own corporate domains. Thus, the Compact promotes good practices by corporations; it does not endorse companies.”

The Nine Principles of the Global Compact		
Human Rights	Principle 1	Support and respect the protection of international human rights within their sphere of influence;
	Principle 2	Make sure their own corporations are not complicit in human rights abuses;
Labour	Principle 3	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;
	Principle 6	The elimination of discrimination in respect of employment and occupation;
Environment	Principle 7	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.

Figure 2.1. The Nine Principles of the Global Compact that all companies must endorse.

Essentially, the United Nations acts as the hub for socially responsible multinational corporations. These relations supersede all national and international jurisdictions, clearly illustrating the current movement towards a *global* rather than international network. Corporations interact directly with the United Nations and indirectly with each other through published case studies and learning forums on the Global Compact website.

Although this study focuses solely on corporations listed on the Fortune Global 500, all corporations are invited to take part in the Compact. A corporation volunteers

for the Compact by submitting (i) a letter of intent from the company CEO that may contain the following:

- information that informs employees, shareholders, customers and suppliers;
- guidelines for integrating the Global Compact and nine principles into the corporate development and training program; and
- an updated mission statement incorporating the Global Compact principles.

and (ii) an annual submission of efforts by the company to advance the Compact's principles including:

- the Global Compact commitment in the company's Annual Report, and other public documents; and
- issuing press releases to make the commitment public

In addition, a corporation may wish to participate in partnership projects and result-oriented issue dialogues. The Compact has been very successful since its inception in 1999; fifty (50) major corporations signed on at the July 2000 kick-off event and it is expected that the list will reach one thousand (1,000) corporations by 2003. As of January 2002, sixty-five corporations are listed as "participating companies" on the official UN Global Compact website⁴.

Despite its success, the Compact has weathered criticism from activist groups such as CorpWatch. It has been criticized that the Compact permits and encourages bluewash, "the allowance of some of the largest and richest corporations to wrap themselves in the United Nations' blue flag without requiring them to do anything new." (New York Times) CorpWatch's four main concerns with the Compact are:

- (i) Wrong Companies – notorious violators of the nine principles are allowed to participate (i.e. Nike);
- (ii) Wrong Relationship – corporations should not be a “partner” of the United Nations;
- (iii) Wrong Image – photos of “partnership” without any corporate action; and
- (iv) No Monitoring or Enforcement – without monitoring, there is no way to know whether or not corporations are abiding by the nine principles.⁵

The final concern is the most hotly debated one. Free riders may develop due to a lack of sanctions, a situation which has the potential of turning the Global Compact into nothing but a mere façade of corporate social responsibility.

IMPLEMENTATION THEORY

The Global Compact is essentially a policy instituted by the United Nations. Because the notion of policy “output” and “outcome” varies from writer to writer in the field of policy implementation, Richard Simeon proposes “[i]t is perhaps more useful to distinguish between first-order consequences, which are intended or immediately perceived, and second order consequences, either benign or malign, which are not foreseen... Two – scope and means – are primarily aspects of output and one – distribution – refers primarily to the effects of policy.” (Simeon 557) Following Simeon’s proposal,

⁴ Beginning 2002, companies who send a letter and submit an example using an online template will be added to the list. The 56 companies on the website are ones that have fulfilled the requirements in 2001. Please see Attachment #1.

⁵ <http://www.corpwatch.org/campaigns/PRT.jsp?articleid=1348>

the Global Compact output may have been clearly identified during the process of policy selection, but given the backlash on the Global Compact, the outcome may not have been. For instance, the decision for the Global Compact to carry no sanctions on violators has affected the outcome (doubts about the validity of the Global Compact) to the extent of output contamination. This directly ties into the issue of slippage, a source of implementation uncertainty, which occurs in the developing partnerships between the international body and the participating corporations.⁶ As stated by Paul Berman in his paper “The Study of Macro- and Micro-Implementation”, slippage occurs often in voluntary social policies and at the micro-implementation level where project adaptation occurs. Certain policy goals have been set and the Secretary-General has selected the program of implementation – a voluntary agreement with learning networks, interdisciplinary dialogue, and partnership projects with the UN. However, whether this program will lead to the desired outcomes depends on the corporations’ ability to interpret, achieve, and adhere to these principles. The pressure for corporations to mutually adapt the policy correctly is enormous. The problems occur namely because the United Nations did not select and commit to an entirely top-down or bottom-up approach to policy implementation. (Appendix A) By mixing strategies from both approaches, key areas such as monitoring are omitted or overlooked.

While there are certain flaws with the chosen policy of the Global Compact, it is difficult to determine, even in retrospect, what a better alternate institution can be. When deciding on the policy mechanism, it is beneficial to go through the checklist provided by Mazmanian and Sabatier in their book, Effective Policy Implementation, to estimate “the

⁶ On January 29 2002, a letter was written to the Secretary-General regarding “serious flaws” within the design of the Global Compact. The issues raised (i.e. lack of transparency, misuse of logo) demonstrate slippage.

probability that a statute will achieve its mandated objectives.” (25) For instance, the first part of question six addresses the key problem in the Global Compact: “Does the statute assign the responsibility for implementation to institutions (agencies) that are strongly supportive of its objectives and likely to grant the program high priority?” (6) In this particular scenario, the corresponding agencies are the corporations. By asking this question, the implementers of the Global Compact perform a cost-benefit analysis for the corporations, given that these two factors do not correlate, to test if the benefits of being socially responsible override typical corporate goals such as high revenue. But, the use of the policy mechanism in place has allowed the United Nations as well as the rest of the world to determine the technical validity of the policy idea since “the ‘goodness’ of most ideas cannot be tested apart from their implementation.” (Berman 163) The essence of the Global Compact idea is indeed sound. The problem only occurs at the implementation level.

THE GLOBAL COMPACT DECISION

This paper aims to determine why a corporation would volunteer for the Global Compact. Specifically, it attempts to answer the following question: What factors contribute to a multinational corporation’s involvement with the United Nation’s Global Compact – a voluntary agreement that encourages corporations to adhere to universal principles in the areas of human rights, core labor standards and the human environment?

Apart from the assumptions that participation in the Global Compact gives corporations a “human face”, it is further assumed that:

(A1) *Corporations' underlying interest is their fiscal health.*

Above all, corporations are very concerned with their financial situation as it determines the company's very existence.

(A2) *All corporations fall under three categories: consumer products, industrial products and financial services.*

Corporations that produce consumer products are those that sell directly to consumers. Industrial product corporations target fellow corporations as customers. Finally, corporations such as banks fall under financial services. Given these broad definitions, these categories are collectively exhaustive and to a certain extent, mutually exclusive⁷.

(A3) *The larger the corporation, the higher the number of employees and the more concerned they are with a positive reputation.*

Corporations therefore are concerned about public exposure and positive relations with their targeted consumers. Reputation is a qualitative characteristic where the number of workers a corporation employs will act as the common measurement of reputation.

Given these assumptions, the following five (5) variables have been identified as possible indications for a corporation to pledge its support: revenue (r), profits (p), assets (a), industry (n) and number of employees (e).

⁷ One may consider a bank as a produce of consumer products. Some companies sell to both consumers and companies.

HYPOTHESES

The five variables are separated into three (3) core areas: Financial, Operating Environment, and Public Exposure. The purpose of separating the variables is to determine at the macro level the aspect of a corporation's business that yields highest impact on the corporation's decision to become a member of an institution such as the Global Compact. These variables are chosen namely due to the assumptions listed in section 4. They are also chosen because of their quantitative nature. The unselected qualitative variables of interest are: competitors (whether or not they are part of the Compact), headquarter and production location(s), and whether corporations are vertically or horizontally integrated. The chosen variables and their relationship to the Global Compact Decision can be observed in Figure 5.1, which combines both the substantive and implementation theory set out at the beginning of this paper:

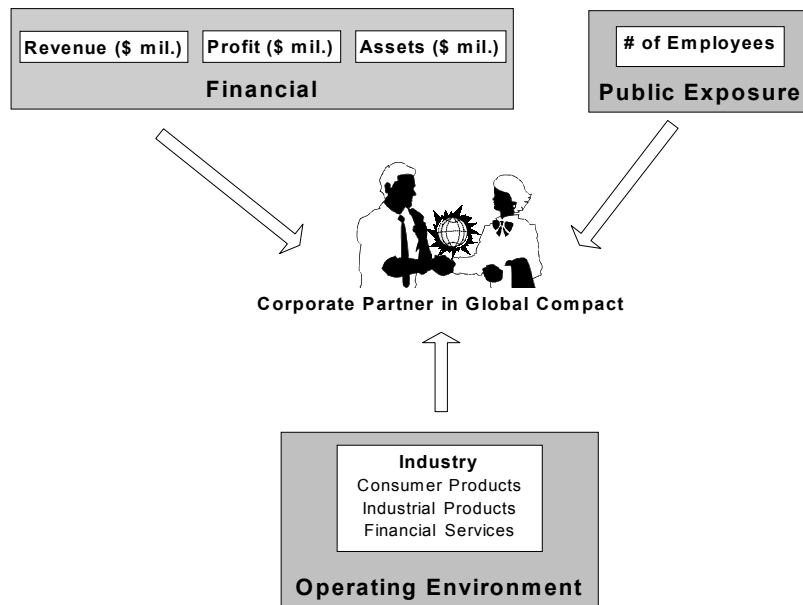


Figure 5.1. Chosen variables and their relationship to the Global Compact decision for corporations.

The three (3) hypotheses are as follows:

Financial

H1: If a corporation has higher revenue, profits, and assets, then it is more likely to volunteer for the Global Compact.

Operating Environment

H2: If a corporation produces consumer or industrial products, then it is more likely to volunteer for the Global Compact.

Public Exposure

H3: The larger the number of employees a corporation has, the more likely it is to volunteer for the Global Compact.

The overarching hypothesis is that each of the five variables will exert an influence on a corporation's decision to join the Compact. However, the extent to which it exerts either a positive or a negative influence on the decision is what needs to be established. This will be further explored in section 6 (Methodology).

METHODOLOGY

In order to quantify a corporation's motivation for pledging support for the Compact, each core area's variables use values supplied by Fortune Magazine's Global 500 listing (online). The model for the decision is as follows:

$$y = \alpha + \beta_1 r + \beta_2 p + \beta_3 a + \beta_4 e + \beta_5 n + \varepsilon$$

where

y = Decision to join to the Global Compact
 β_1, \dots, β_5 = Impact of variable on decision
 r = revenue
 p = profit
 a = assets
 e = number of employees
 n = industry

Sixty-five (65) cases are used in the study. Although sixty-five corporations are listed as participants on the Global Compact website, only multinational corporations that were on the Fortune Global 500 were used. These corporations make up the 25 cases. The other forty (40) are randomly selected from the Fortune Global 500 list.

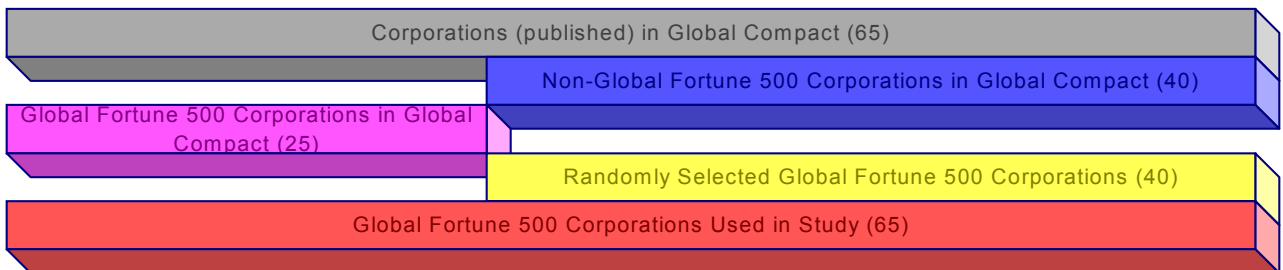


Figure 6.1. Process of how sample for study was selected.

Given the dichotomous y-variable, a probit is used to estimate the influence each variable has on the decision. The decision (y-variable) acts as the dependent dummy variable and the other variables serves as independent variables. A probit rather than a regression is used because the dependent variable is dichotomous; thus, a probit creates a linear relationship.

Two datasets are used to estimate the impact of geographical location on the Compact decision. One contains only North American and European corporations while the other contains all corporations.

All Corporations	N. American & European Corporations
Sample size = 65 firms	Sample size = 55 firms
Of the 65 firms, 25 are part of the Global Compact; 40 are not part of the Global Compact	Of the 55 firms, 11 are part of the Global Compact; 34 are not part of the Global Compact

Figure 6.2. Comparison of the two Datasets: All Corporations versus Only North American & European Corporations

As previously mentioned, the collected data is from Fortune Magazine’s Global 500, a listing of the world’s largest corporations⁸. Within the dataset, the average rank on the Fortune Global 500 for the corporations is 206. The three (3) industry sectors are also well represented and reflect the true industry proportions within the complete Global Fortune 500.

Data Averages*	
Rank	206
Revenue	\$34,751 mil
Profit	\$2,331 mil
Assets	\$98,708
# of Employees	143,086

Figure 6.3. Data Averages for Dataset containing All Corporations

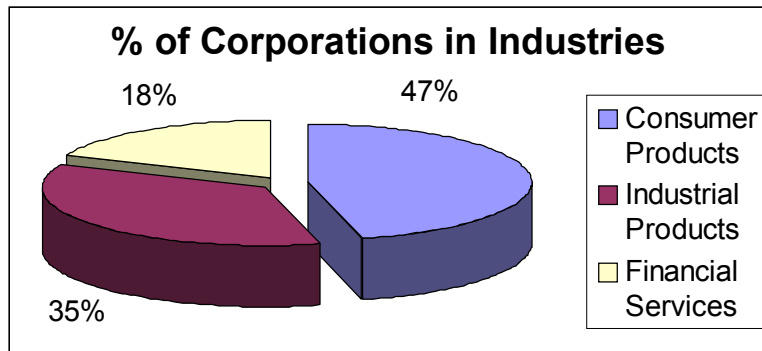


Figure 6.4. Percentage of Corporations in Each Industry

RESEARCH FINDINGS

Prior to discussing the probit results, it is beneficial to examine the data on a prima facie basis to observe any obvious correlations between the variables and the decision (Appendix B). This was completed only for profit, revenue, assets and number of employees because of their quantitative nature. It is clear from Figures 7.1 through 7.4 that there is no clear correlation between any of the four variables and the decision. As the values of each of the variables increase, the Global Compact decision still oscillates from yes to no. Therefore, a probit is necessary to determine the variables' affect on the decision.

		N.Amer / Euro		All	
		Impact	Conf. Int.	Impact	Conf. Int.
Variable Impact on Decision	gc/revenue	+	0.070	+	0.054
	gc/profit	+	0.192	+	0.104
	gc/asset	+	0.167	+	0.134
	gc/emp	+	0.941	+	0.671
	gc/cons	+	0.783	+	0.813
	gc/ind	+	0.653	+	0.539
	gc/fin	-	0.370	+	0.285

Figure 7.1. Impact variables have on Compact Decision Using 2 Different Datasets

Figure 7.1 summarizes the impact of each of the variables. The “Impact” column denotes the type of effect (positive or negative) the variable has on the Compact decision while the “Conf. Int.” (confidence interval) indicates the probability of this effect is due to statistical error.

⁸ Large defined by revenue.

From the chart, it can be observed that the two datasets yield different results for the variables. The North American and European dataset yields high confidence interval levels for a majority of the variables; thus, only the dataset containing all the corporations will be examined. The high levels from the North American/European firm dataset can be attributed to its smaller sample size. From the all-corporation dataset, the impact of all the variables is positive, thus indicating that all variables have varying degrees of positive influence on the Compact decision. The confidence in the variables (as a player in the Compact decision) in descending order is: revenue; profit; assets; being in the financial services industry; being in industrial products industry; number of employees; and being in the consumer products industry.

These results can be further supported by the calculation of the point biserial correlation coefficient. The point biserial correlation coefficient, r_{pb} , pertains to the situation where one variable is dichotomous and the other is non-dichotomous.

$$r_{pb} = \frac{y_2 - y_1}{s_y} (\sqrt{pq})$$

where

- y_2 = average revenue/profit/assets/employees of corporations that join
- y_1 = average revenue/profit/assets/employees of corporations that do not join
- s_y = standard deviation of revenue/profit/assets/employees of all corporations in study
- p = proportion of groups that join
- q = proportion of groups that do not join (1-p)

Given the requirement that the second variable must be non-dichotomous, only the coefficients for variables r , p , a , e were computed (Figure 7.2). These results support the ones previously found with the probit.

Point Biserial Correlation Coefficient (r_{pb}) Results			
Revenue: 0.247	Profit: 0.206	Assets: 0.196	Employees: 0.052

Figure 7.2. Point Biserial Correlation Coefficients for Revenue, Profit, Assets and Employees as the dependent variables

ANALYSIS

Given the research findings, the hypotheses in section 5 will be re-examined.

Financial

H1: If a corporation has higher revenue, profits, and assets, then it is more likely to volunteer for the Global Compact.

Given the research findings, this hypothesis is found to be correct. However, while the three variables influence the decision positively (i.e. as revenue/profits/assets increase, the chance of a corporation joining the Compact also increases), they each apply different degrees of impact. Revenue is the best predictor of a corporation's decision followed by profit and then assets.

Operating Environment

H2: If a corporation produces consumer or industrial products, then it is more likely to volunteer for the Global Compact.

Given the results, this hypothesis is found to be incorrect. Corporations that offer financial services are most likely to volunteer for the Global Compact, followed by industrial products and then consumer products. One possible explanation for this result is that financial service corporations may join due to their low risk of principle violation. On average, these firms are not active in the areas of human rights, core labour standards, and the human environment. Industrial and consumer product producers, on the other

hand, have to make significantly more corporate practice adjustments in order to adhere to the nine principles. In particular, consumer product producers may be especially weary of the Compact because they are generally subject to a more competitive environment than the industrial product corporations and thus, are more concerned with profit margins. Industrial product producers, such as Indian Oil Corporation, have a natural monopoly and/or are a crown corporation so the concern about profits is to a lesser extent.

Public Exposure

H3: The larger the number of employees a corporation has, the more likely it is to volunteer for the Global Compact.

Given the research findings, this hypothesis is also incorrect. The number of employees having an impact on the Compact decision can only be said with just over 30% confidence. This result, however, does not mean that public exposure is not a factor in the Compact decision but rather that the number of employees is not necessarily the correct quantitative measure for public exposure. Theoretically, public exposure is the most important determinant of a corporation's decision to participate in the Global Compact.

Although not part of the original hypotheses, another research finding is that geographical location bears no impact on the Compact decision. It is assumed that because of the predominance of North American and European firms in the Global Fortune 500 listing, variables that bore an impact on the Compact decision for all firms should have an even higher impact when tested with just North American and European

firms. However, this is not the result yielded; in fact, it is the exact opposite. However, as previously stated, this may be because a smaller sample size was used.

These results prove important to corporations and the Global Compact organizing council but are also useful for national governments. At the beginning of this paper, it was noted that the Canadian government should pay particular attention to the fact that no major Canadian multinational corporations are part of the Global Compact. While corporate involvement with the Compact may not be of significant interest to the Canadian government, this paper nonetheless determines the methods government can take should it be interested in encouraging corporations to get involved. At the minimum, governments can target firms in the financial service sector and/or those with high revenue.

CONCLUDING REMARKS

A mere three years has passed since the inception of the Global Compact. However, its nine principles in human rights, core labour standards, and human environment have spread all over the world. Despite social, economical, and cultural differences, corporations and businesses from every continent are banding together to improve the rights of all people in the global market.

This paper, in a sense, has removed the rose-colored glasses from this view to reveal a darker side of the Global Compact. Instead of the drive to further raise the bar on human rights, corporations are volunteering for the Compact for other intents and purposes. The research findings show that indeed revenue and industry have a small but statistically significant link to a corporation's decision to join. However, there is a

noteworthy difference between correlation and causality. In this study, it has been shown that certain variables have a positive correlation to the decision but a causal relationship cannot be established.

In many tests of economic theory, the goal is to infer that one variable has a causal effect on another. Finding an association between the two, which is what was accomplished in this paper's research, is suggestive but non-compelling unless causality is established. However, it can be said that *ceteris paribus*, firms either in financial services and/or have high revenue are more likely to join the Compact. As previously discussed, while this result is not entirely expected, it can be justified.

In conclusion, although fiscal health plays a role in a corporation's decision, there are clearly other immeasurable factors that exist such as reputation, public relations, and so forth. In the future, other quantitative variables to test are: age of CEO; and degree to which corporations are debt-financed. Qualitative variables of interest are: competitors (if part of Compact); headquarter and product locations(s); and if they are vertically or horizontally integrated. Furthermore, to better improve the Compact, the organizing committee may want to use Mazmanian and Sabatier's guide to policy implementation to further enhance the output and outcomes of the Global Compact.

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Appendices

Appendix A: Comparison of a Top Down and Bottom Up Approach vs. the Actual Approach implemented by the United Nations.

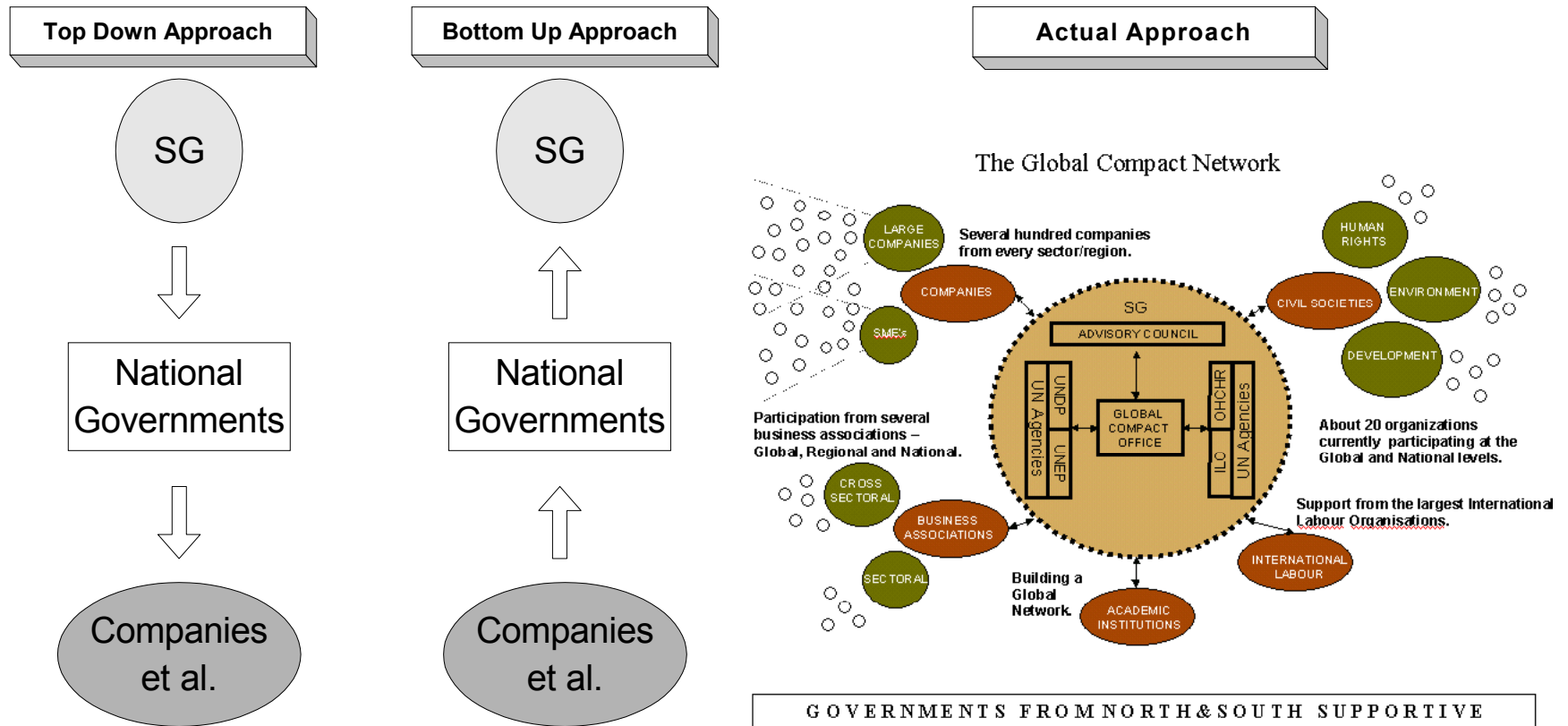


Figure 3.1. Three Different Approaches to the Structure of the Global Compact

Source: <http://www.unglobalcompact.org/un/gc/unweb.nsf/content/diagram.htm>

Appendix B: Research Findings - Charts

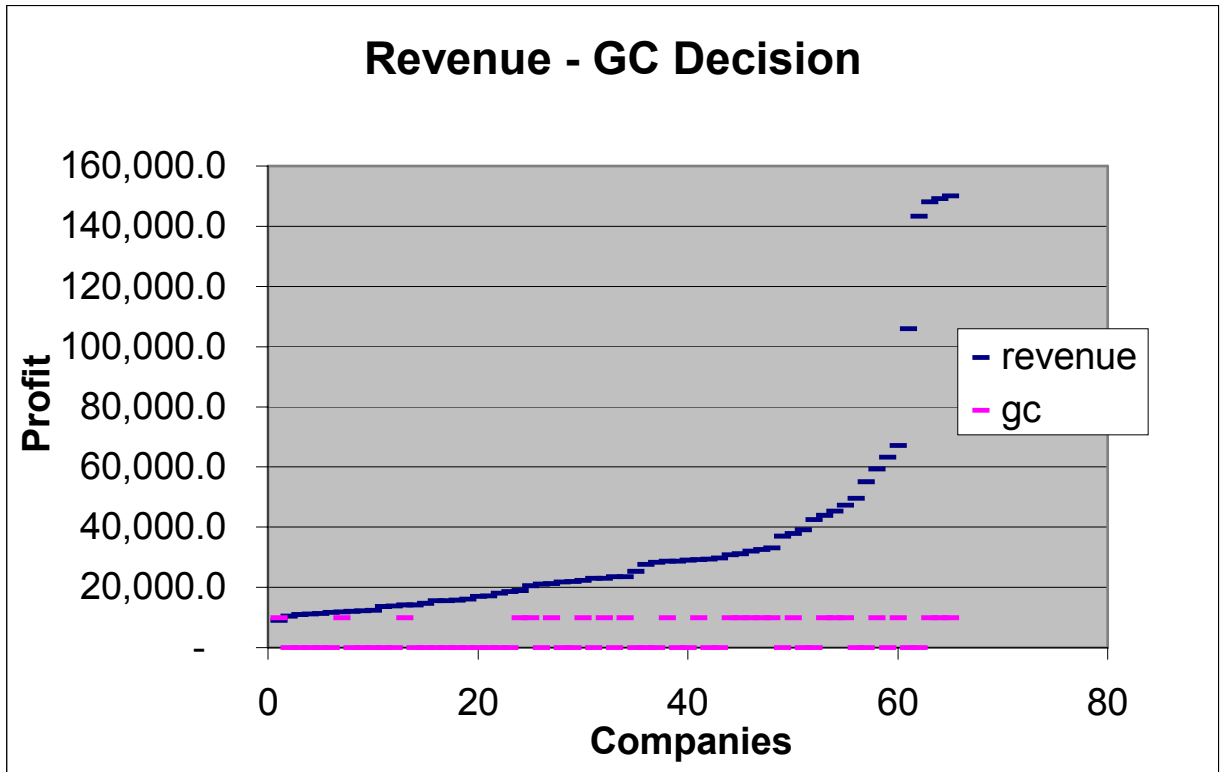


Figure 7.1. Relationship between a corporation's revenue and its decision to join the Global Compact

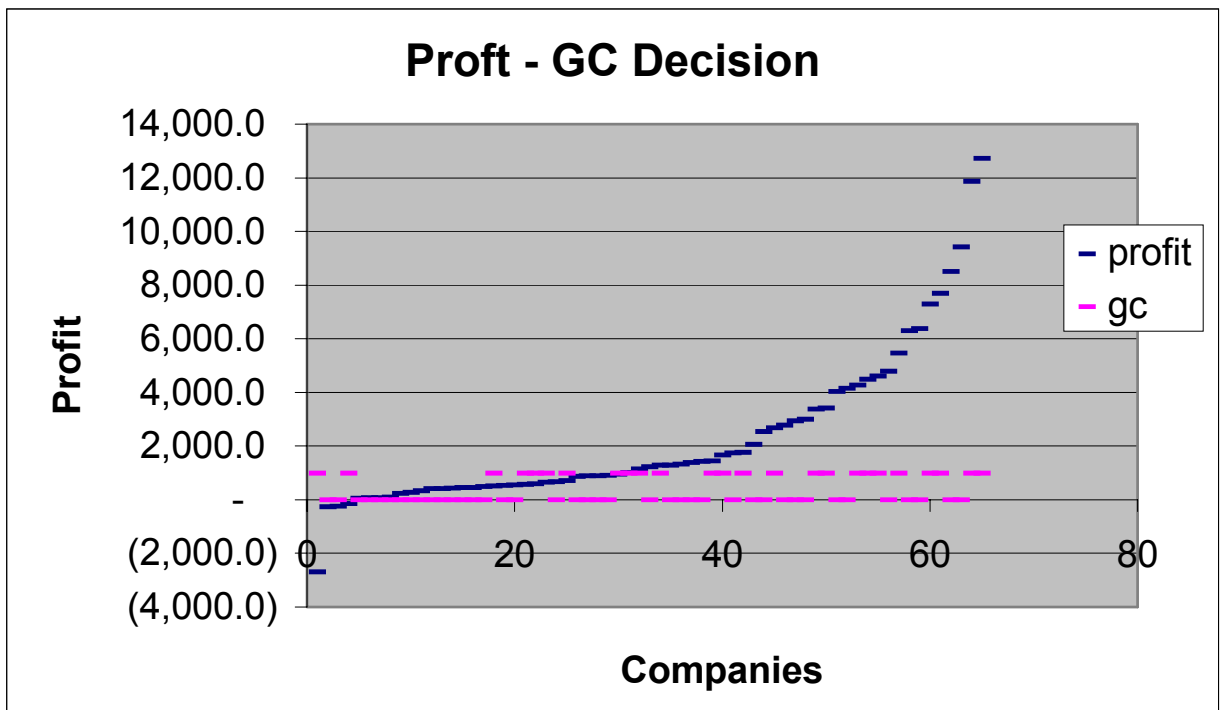


Figure 7.2. Relationship between a corporation's profits and its decision to join the Global Compact

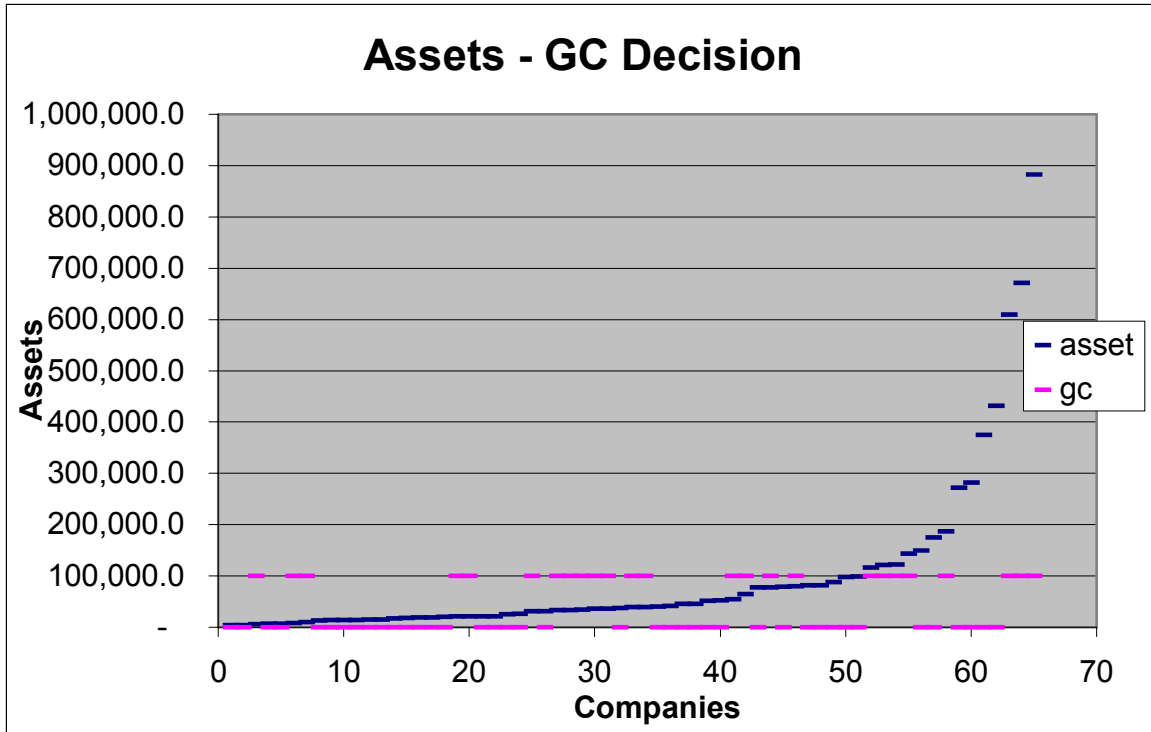


Figure 7.3. Relationship between a corporation's assets and its decision to join the Global Compact

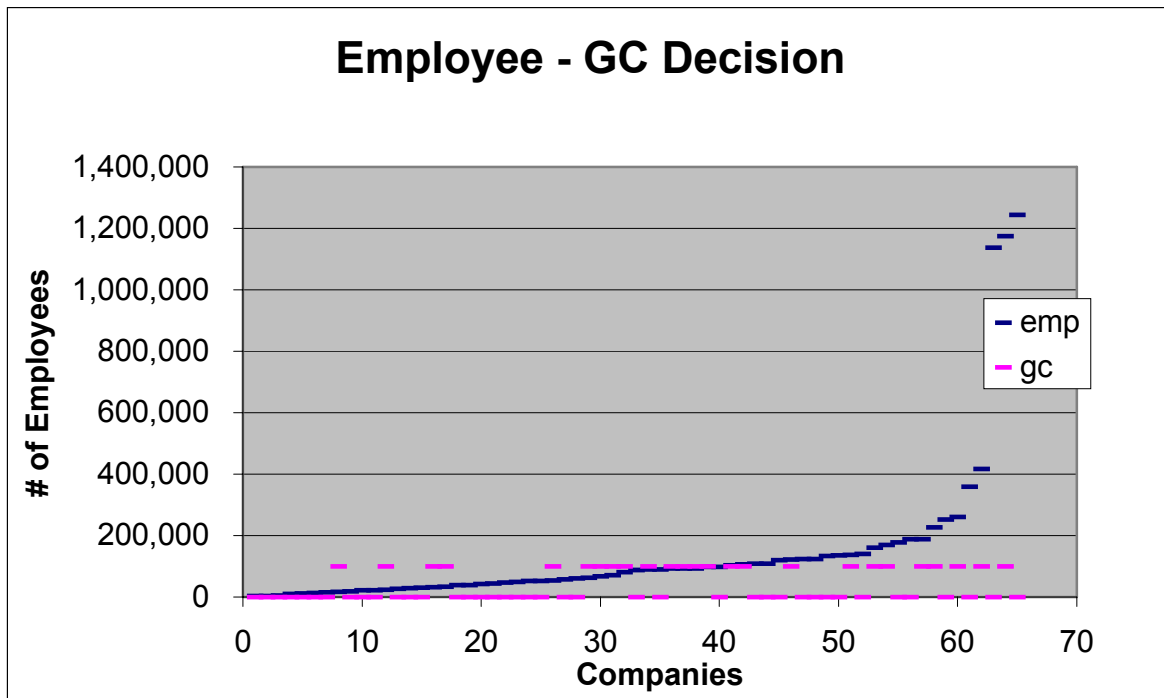


Figure 7.4. Relationship between the number of employees in a corporation and its decision to join the Global Compact