

Case Study: UN Global Compact

The United Nations' Global Compact was launched in 2000 to promote responsible business action for more sustainable and inclusive markets worldwide.

The compact unites businesses, UN agencies, labour organisations and civil society in support of 10 key principles covering areas including human rights, labour, environment and anti-corruption. It is the world's largest voluntary corporate citizenship initiative with more than 4,000 stakeholders in 116 countries.

A purely voluntary initiative, the Global Compact aims to stimulate business action in support of the UN's Millennium Development Goals. It offers facilitation and engagement through policy dialogue, learning, local networks and partnership projects. Signatories are required to communicate annually on actions they have taken in support of the Global Compact through financial, sustainability or other prominent public reports.

With regard to company size, current signatories to the Global Compact are divided almost evenly between large companies with more than 250 employees (55%) and small-to-medium sized enterprises (45%).

Australian signatories

Here in Australia, Allens Arthur Roberston, BHP Billiton, Fosters Group and Westpac are amongst more than 25 signatories. Efforts are currently underway to establish a local network to offer signatories a range of value-add activities, such as workshops on core issues, partnership project opportunities and guidance on communicating progress.

According to Georg Kell, Executive Director of the UN Global Compact, a number of key developments have contributed to the initiative's growth in recent years. These include:

- *Global awareness and understanding* of the notion of "corporate responsibility" is markedly higher than a decade ago.
- *Financial markets* are starting to recognise that environmental, social and governance issues can be material to long term performance.
- The *business case for principles-based change* is no longer just about avoiding costs for getting it wrong; it is increasingly about the benefits of getting it right.

Mr Kell said that never before have the objectives of the international community and the business world been so aligned.

Sustainability frontrunners generate higher stock prices

Recent groundbreaking studies by Goldman Sachs and McKinsey & Company support the view that an increasing number of business leaders see corporate responsibility as a way to compete successfully and to build trust with stakeholders – and that sustainability front-runners in a range of industries can generate higher stock prices.

Goldman Sachs analysed companies in six industry sectors, including energy, mining and food and beverages, with respect to performance in environmental, social and governance (ESG) policies; how well they were positioned vis-à-vis long-term industry trends; and the strength of their underlying financial returns.

The data showed that companies who are considered leaders in implementing ESG policies to create sustained competitive advantage **have outperformed the general stock market by 25 percent since August 2005. In addition, 72 percent of these companies have outperformed their peers over the same period.**

"The evidence is building that embedding universal principles and related environmental, social and governance policies into management practices and operations delivers long-term business value and is rewarded by markets," Mr Kell said at the Global Compact Leaders Summit held during 2007. "Fundamentally, for companies and investors, this is about managing risks and opportunities presented by globalisation."

Performance gaps

At the same time, important “performance gaps” in implementation, were highlighted by McKinsey & Company in a complementary survey of chief executives participating in the Global Compact.

The survey revealed that more than 90 percent of CEOs are doing more than they did five years ago to incorporate environmental, social and governance issues into strategy and operations.

Whilst 72 percent of CEOs said corporate responsibility should be embedded fully into strategy and operations, only 50 percent think their firms actually do this. Additionally, 59 percent of CEOs said corporate responsibility should be embedded into global supply chains, but only 27 percent think their organisations are doing so.

Mr Kell said that these findings show that for an increasing number of business leaders, corporate responsibility is no longer an option, but a necessity in order to compete successfully.

“At the same time, in order to fully maximize these benefits and increase their competitive advantage in the global marketplace, companies must adopt a broader and deeper approach with respect to implementation of corporate responsibility principles,” he added.

For more information on the UN Global Compact, visit unglobalcompact.org