The Power of Responsibility: Integrative Social Contracts Theory and the United Nations Global Compact

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Daniel Malan

Date: 13 September 2015

Abstract

The purpose of this sequential mixed methods study is to examine the application of Integrative Social Contracts Theory (ISCT) to the principles of the United Nations (UN) Global Compact, with specific reference to the South African context.

The main research question addressed in this study is as follows:

- To what extent can ISCT support a more nuanced understanding of the UN Global Compact?

In addition, the following secondary question is posed:

- To what extent – with reference to ISCT – do South African corporations that are active participants in the UN Global Compact take local conditions into account when implementing and communicating on the 10 principles of the UN Global Compact?

Based on the results of this examination, a conceptual framework is proposed that is aligned with both ISCT and the UN Global Compact requirements. The framework aims to assist corporations to improve the effectiveness of their corporate responsibility initiatives.

The UN Global Compact is the world's largest voluntary corporate responsibility initiative. In 2014 the initiative had over 8 000 business participants from more than 145 countries. Participants are required to support 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption. In order to provide specific examples, the study offers empirical research on South African corporations that are active members of the UN Global Compact. The study investigates how corporations take local conditions into account when implementing and communicating on the 10 principles of the UN Global Compact.

Discussions about the UN Global Compact form part of a broader conversation about corporate responsibility and the moral purpose of business. There is a growing tendency to acknowledge that corporations have moral responsibilities and that their behaviour can be subjected to moral scrutiny. The purpose of business is articulated by the concept of corporate responsibility – which is the idea that the corporation bears a moral responsibility towards society as a whole. The corporation is expected to make a positive contribution to society, by extending its impact beyond its shareholders and the exclusive pursuit of short-term profit. Normative theory supports this view for which social contract theory and stakeholder theory are specifically helpful.

ISCT suggests that there is a universally binding moral threshold (comprising universal principles or hypernorms) that would apply anywhere in the world and that forms the basis of a hypothetical macro contract for economic ethics. At the same time, context matters from a practical as well theoretical perspective when deciding between right and wrong. According to ISCT, corporations should have

respect for local customs and conventions and can therefore negotiate micro contracts within moral free space as long as they do not transgress the universal moral threshold. Micro contracts are actual, non-hypothetical and often implicit agreements that exist within corporations, industries and national economic systems. Moral free space refers to the freedom of individuals, corporations and other social actors to form or join communities and to act jointly to establish moral rules applicable to the members of these communities.

In this study it is argued that the 10 principles of the UN Global Compact can be regarded as substantive hypernorms, and that the principles, collectively, can be regarded as a hypothetical macro contract. Within the context of the UN Global Compact, three different kinds of micro contracts can be identified: the local network structure of the UN Global Compact, collective action initiatives, and individual company behaviour based on codes of conduct. However, empirical research indicates a limited focus on local conditions in many of these examples.

The interpretation offered in this study gives the UN Global Compact a certain dynamic power which is not present if it is merely seen as a voluntary code that confirms a set of static principles. However, the existing guidance provided by the UN Global Compact does not embrace this interpretation and is also somewhat fragmented. Therefore, inspired by ISCT, a new conceptual framework is proposed, one which can be applied by all corporations, regardless of whether they are participants in the UN Global Compact or not.

The proposed framework aims to assist corporations to conceptualise, develop and implement effective corporate responsibility programmes. It is underpinned by the need to have a thorough understanding of responsibility, with specific reference to the distinction between (but not separation of) the moral and business case. Such an understanding then enables the corporation to take responsibility, and informs a series of activities that relate to *internal* processes (governing responsibility, managing responsibility and reporting on responsibility) and respond to the *external* activities of regulating responsibility.

The significance of the framework lies in a combination of scientific rigour and managerial relevance. It has a strong theoretical underpinning while also being readily accessible to practitioners. It is the practitioners who will make most of the decisions that will have an impact on human rights, labour issues, environmental performance and the fight against corruption.

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Chapter 1: Introduction

1.1 Introduction

The purpose of this sequential mixed methods study is to examine the application of Integrative Social Contracts Theory (ISCT) to the United Nations (UN) Global Compact, with specific reference to the South African context. Based on the results of this examination, a conceptual framework is proposed that is aligned with both ISCT and the UN Global Compact requirements. It aims at assisting corporations to improve the effectiveness of their corporate responsibility initiatives.

ISCT is a normative theory that was developed by Tom Donaldson and Thomas Dunfee to provide guidance on ethical issues in international business (Donaldson & Dunfee, 1999). The theory suggests that there is a universally binding moral threshold (comprising universal principles or hypernorms) that would apply anywhere in the world. At the same time, context matters from a practical as well theoretical perspective when deciding between right and wrong. According to the theory, corporations should have respect for local customs and conventions and can therefore negotiate micro contracts within moral free space as long as they do not transgress the universal moral threshold. The basic message of ISCT is that “implicit agreements constitute part of the basic software of business ethics” (Donaldson & Dunfee, 2000a: 437). As opposed to conventional social contract theory that investigates the contracts between citizens and governments, ISCT focuses on how economic participants will define business ethics.

The UN Global Compact is the world’s largest voluntary corporate responsibility initiative, and an effective and popular tool to align corporate behaviour with societal expectations. The UN Global Compact comprises 10 principles in the areas of human rights, labour, environment and anti-corruption. It is argued that the initiative provides a good example of how social contract theory – the basic idea that society, in order to exist, has to rely on agreements or contracts between different groups and individuals – can be applied to corporations.

1.2 Research questions

The main research question addressed in phase one of this study is:

- To what extent can Integrative Social Contracts Theory (ISCT) support a more nuanced understanding of the UN Global Compact?

In addition, the following secondary question is posed:

- To what extent – with reference to ISCT – do South African corporations that are active participants in the UN Global Compact take local conditions into account when implementing and communicating on the 10 principles of the UN Global Compact?

In the second phase of the study, a conceptual framework is presented that is aligned with both ISCT and the UN Global Compact. The development of this framework was based on a critique of existing tools provided by the UN Global Compact, such as the UN Global Compact Management Model and the Blueprint for Corporate Sustainability Leadership.

1.3 Research objectives

The research objectives are to make a specific contribution to knowledge in the following two areas:

- The refinement of ISCT, which provides the theoretical underpinning for the research. The particular focus is on how the concepts of micro contracts and moral free space can be applied by corporations within the context provided by the 10 principles of the UN Global Compact. These principles are positioned as substantive hypernorms that form part of a hypothetical macro contract; and
- The development of a conceptual framework with the potential for *practical* application, based on ISCT and aligned with the requirements of the UN Global Compact, that will allow corporations to improve the quality and impact of their corporate responsibility programmes, regardless of whether they are participants in the UN Global Compact or not.

1.4 Research methodology

The research was designed as a sequential mixed method study that comprised mainly a qualitative component: the refinement of ISCT and the phase two development of a conceptual framework, supported by a quantitative component: empirical research that investigated the performance and reporting practices of all South African corporations that are active participants in the UN Global Compact. The quantitative component also included the collection and analysis of ethical dilemmas that have been experienced by South African managers and MBA students.

This methodology was purposefully selected to align with ISCT. Donaldson and Dunfee (1999: 9) discuss the conflict of methodology in the field of business ethics. They describe the sharp dichotomy in business ethics research, with empirical research in the one corner and normative, prescriptive research in the other. In broad terms, the first focuses on the 'is', and the second on the 'ought' – the two positions cleft asunder by 18^{th} century philosopher David Hume's 'guillotine'. Donaldson and

Dunfee briefly describe G.E. Moore's naturalistic fallacy – the logical mistake of deducing an ethical conclusion from empirical research (the move from an 'is' to an 'ought'), which is something that these authors claim to avoid in their own theoretical contribution (Donaldson & Dunfee, 1999: 9). Donaldson and Dunfee describe their theory as a "normative theory … which incorporates empirical findings as part of the contractarian process of making normative judgments" (Donaldson & Dunfee, 1994: 254).[1]

The two approaches described above have both featured strongly in business ethics research. In very general terms, philosophers usually follow the normative route with regard to the application of ethics to business (in the same way as normative concepts have been applied to fields such as journalism, law and medicine), while business school researchers with empirical training usually apply their techniques (often borrowed from marketing or finance) to study ethics. This has resulted in what Donaldson and Dunfee (1999: 12) call a methodological standoff .

Donaldson and Dunfee position ISCT as an explicit attempt to integrate the two rival camps in a meaningful way. They describe ISCT, first and foremost, as a normative theory, but one that acts as a container for empirical or behavioural principles: "it is in the 'container' of ISCT that one discovers the rules and implicit understandings that exist in the day-to-day world of modern business" (Donaldson & Dunfee, 1999: 12). This approach seems to be in line with Enderle's (1999) request for business ethics to "walk on two legs". Enderle (1999: 185) argues in favour of the two-legged approach with a dialectic between descriptive-analytical and normative-ethical perspectives, because it opens up new opportunities for scholarship that would be applicable in theory and practice .

In line with the methodology of ISCT, no specific hypothesis has been tested in this dissertation. The empirical component of the research was guided by the central premise that limited examples would be revealed of how the overall study population (South African corporations that are active participants in the UN Global Compact) take local conditions into account when implementing and communicating on the 10 principles of the UN Global Compact, but that sufficient best practice examples could be obtained from these corporations and others to be used as case studies. The empirical component comprised a predominantly descriptive survey, covering the entire population of active South African signatories to the UN Global Compact. Because the entire population was included and because of the descriptive nature of the survey, no statistical inferences were drawn. The survey focused on the following:

- An assessment of the general approach to corporate responsibility, based on an analysis of communications on progress (COPs) and CEO statements;

[1] In a later contribution, Donaldson also points to the naturalistic fallacy within contemporary thinking about corporate governance, which he calls the epistemic fault line in corporate governance (Donaldson, 2012). This contribution is discussed in more detail in Chapter 7.

- Coverage of the main UN Global Compact components, with a specific focus on the global/local debate, collective action and the ISCT concept of moral free space; and
- A detailed assessment of the coverage of anti-corruption reporting, based on guidance provided by Transparency International and the UN Global Compact's Reporting Guidance on the 10th Principle against Corruption.

The overall research design was further informed by the very specific requirements of the PhD in Business Management and Administration, which is an executive PhD with the clear objective of "developing employable knowledge". The programme is described by the University of Stellenbosch Business School as a practice-based programme. It "combines scientific rigor [sic] and managerial relevance" and there is a specific requirement to "demonstrate a theoretical as well as a practical appreciation and understanding" of the relevant research area. The programme requires students to link theory and practice in such a way that it creates "hybrid vigour".[2]

In summary, the way in which we view the world (and the role of business in the world) is framed by a theoretical approach (how do we understand it?), and a practitioner's approach (how do we change it?), as depicted in Figure 1. The theoretical approach may be either normative, prescribing what ought to be done, or it may be empirical, describing the way things are. Each of these views of the theoretical approach presents significant challenges and complexities. In brief, the normative view is often accused of being idealistic and not in touch with the business environment. The empirical approach is sometimes challenged because it does not grapple with the difficult ethical issues implicit in a business environment, and also because the large amounts of quantitative data associated with empirical investigation and the positive correlations between the data do not necessarily prove causation. From a practitioner's perspective there are many interventions and initiatives that can assist companies to make an impact, among them the focal point of this dissertation, the UN Global Compact. These initiatives are often accused of using theoretical sleight of hand to sidestep the choice between the business case (we do things, including acting with integrity, because we will make more money) and the moral case (we do things because they are the right things to do, whether we will make more money or not). This sleight of hand is represented by the enlightened self-interest approach (we do things because they are the right things to do and fortunately for us they are also good for business). As will be illustrated later, this approach has theoretical limitations and is unfortunately also often associated with lip-service.

[2] http://www.usb.ac.za/PhD-in-Business-Management-and-Administration/Pages/Our-learning-philosophy.aspx, accessed 28 November 2014.

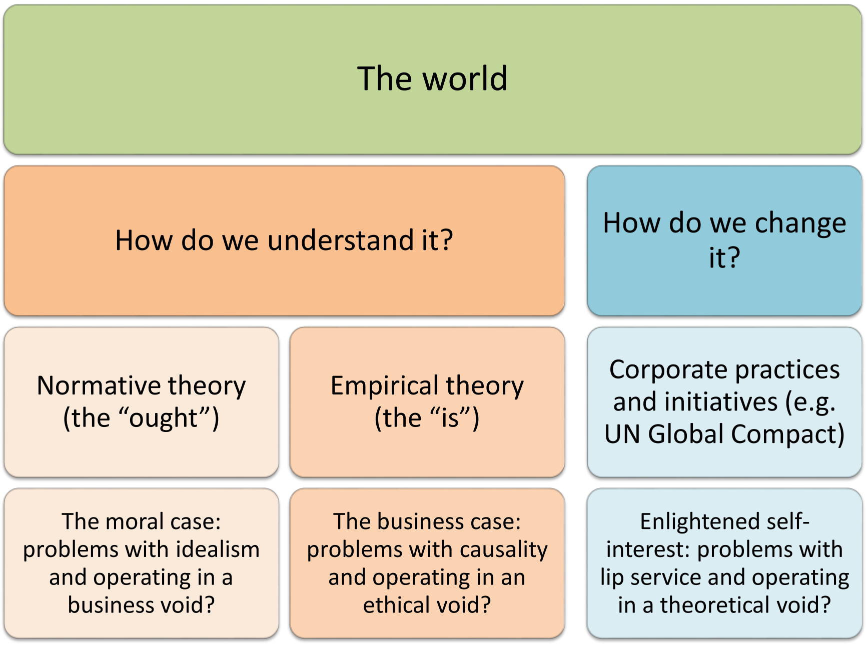

Figure 1: Understanding and changing the world

The theoretical approach of Integrative Social Contracts Theory succeeds in bridging the rival notions of normative and empirical theory, and it will be argued that an application to the UN Global Compact allows it to move beyond lip-service. In this way a powerful combination is created of a normative theory designed for business – one that avoids the naturalistic fallacy yet has a strong empirical component, and also provides an accessible framework with a strong theoretical grounding, as illustrated in Figure 2.

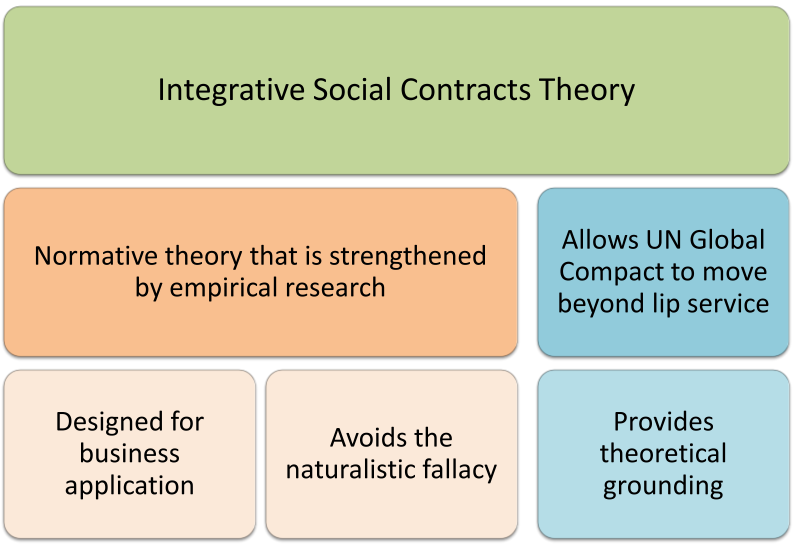

Figure 2: The value of Integrative Social Contracts Theory

In summary, the sequential mixed methods study will answer the research questions in phase 1, and presents a proposed conceptual framework in phase 2, as outlined in Figure 3.

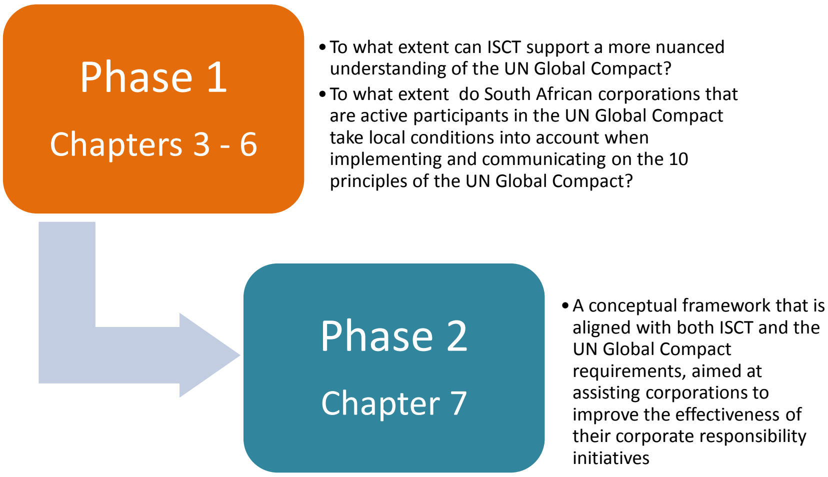

Figure 3: Sequential mixed methods study outline

1.5 General assumptions and limitation

The following general assumptions are made at the outset:

- Both human beings and organisations form part of broader society, both are shaped by society and have an impact on society through their actions. Therefore, both have responsibilities to align their actions with universal ethical principles (this is a normative assumption and will be discussed in detail with regard to the moral purpose of business);
- As human beings – whether we represent the interests of other people or organisations or simply look out for ourselves – we have a wide variety of views on just about everything, and consensus on almost all of these is both impossible and unnecessary; sufficient consensus is required for cooperation among different stakeholder groups, and that is achievable;
- This diversity of opinion also applies to our sense of what is right and wrong. As humans, we all have that sense, and although there is remarkable similarity about the big ticket items, there is sufficient disagreement to keep a conversation going that is already a few thousand years old; and
- When human beings make judgements on moral issues, they assess not only the activities of individuals, but also ask whether corporations or states can act in an ethical manner, and they often question the acceptability of the system within which they operate. Views on ethical

behaviour and ethical responsibilities will therefore focus on individuals (e.g. J. Arthur Brown, Bernie Madoff and Ken Lay), on corporations (e.g. Lonmin, BP and Enron), and on systems (e.g. capitalism, socialism and hybrid versions of the two).

A limitation of this dissertation is that it has been written from a Western philosophical perspective. Claims about universal values and the construction of a social contract are part of this tradition and form part of the intellectual lens that has shaped this work. Of course, the pluralistic nature of this tradition opens the door for external challenges and critical debates about the fundamental framework, but that in itself is part of the perspective and could potentially also be challenged by other philosophical paradigms. This limitation is acknowledged but will not be explored further in this dissertation.

1.6 Conceptual clarifications

The term 'corporate responsibility' (CR), rather than 'corporate social responsibility' (CSR), is preferred in this study. This is in line with an international trend, which is based loosely on the realisation that there is a need for a more comprehensive description of corporate responsibility rather than merely a reference to the societal aspects. Furthermore, the use of the term corporate social responsibility can have the unintentional effect of positioning the corporation as something separate from broader society. And finally, given the history of CSR, many commentators still associate the term CSR with peripheral, philanthropic activities, rather than something that is integrated into the core strategy of the corporation. To some extent, the terms CR, CSR and corporate citizenship can be used interchangeably, and when they appear in certain literature can also be interpreted as such, unless there is a specific comment to the contrary.

The work of Archie Carroll has been instrumental in tracing the history of CSR as well as describing defining moments in its development. Carroll defines CSR as follows (Visser, Matten, Pohl & Tolhurst, 2007: 122-123):

> *[It is t]he general belief … that modern businesses have responsibilities to society that extend beyond their obligations to the stockholders or investors. … [CSR] encompasses the economic, legal, ethical and discretionary / philanthropic expectations that society has of organizations at a given point in time.*

Carroll (1999: 270) quotes one of the early definitions of CSR by Bowen, who in 1953 said that CSR refers to "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and the values of our society". The author proceeds to outline many new concepts that were added over the decades, for example stakeholder theory, business ethics and corporate citizenship (Carroll, 1999: 292). He predicts that increasing attention will be given in the 21st century to measurement initiatives as well as theoretical developments (Carroll, 1999: 292):

> *[T]he CSR concept will remain as an essential part of business language and practice, because it is a vital underpinning to many of the other theories and is continually consistent with what the public expects of the business community today.*

Looking back at Carroll's predictions, which were made in 1999, it seems that subsequent emphasis was placed more on the development of measurement initiatives than on further theoretical developments. Part of the reason for this development can perhaps be found in the fact that CR has become increasingly mainstream in business *operations* since the turn of the century. Carroll's prediction was published two years before the collapse of Enron and approximately eight years before the onset of the global financial crisis.

In a later contribution, the following definition of corporate responsibility is provided by Carroll, Lipartito, Post, Werhane and Goodpaster (2012: 7): "[T]he idea that the corporation exists in society and has rights and responsibilities as a member (or citizen) of that society". They identify the following recurrent themes in the history of corporate responsibility: the relationship between ethics and corporate responsibility; leadership, organisations and responsibility; stakeholders; sustainability; measurement; power and responsibility; and the concept of a new social contract (Carroll *et al*., 2012: 17-26).

Williams (2014a: 5-10) traces the history of CSR and discusses the important contributions from many scholars since the 1940s. The definition for CSR proposed by Williams (2014: 5) is "behaviour of business which seeks to solve social problems in the wider society that would not ordinarily be addressed in the pursuit of profits". He discusses the challenge of reconciling and integrating economic and social values, with reference to contributions or suggestions from Mackey ("conscious capitalism"), Gates ("creative capitalism") and Cohen and Greenfield ("caring capitalism") (Williams, 2014: 6). It is interesting to note the use of the words "not ordinarily", because this seems to challenge some of the more strategic approaches to corporate responsibility.

Schwab (2008) makes the point that the term CSR is an oversimplification, and then proceeds with a brief conceptual comparison between corporate governance, corporate philanthropy, corporate social responsibility and corporate social entrepreneurship, before introducing the concept of global corporate citizenship. He makes the important point that corporations should not only focus on engagement with their stakeholders, but that they should understand that they themselves *are* stakeholders in a broader process, alongside governments and civil society. He discusses global challenges such as climate change, public health care, energy conservation and water management as particular examples of global priorities that can only be addressed through partnerships between corporations, governments and civil society (Schwab, 2008: 107). As justification for this proposed approach, Schwab (2008: 107) uses the enlightened self-interest argument:

> *Because these global issues increasingly impact business, not to engage with them can hurt the bottom line. Because global citizenship is in a corporation's enlightened self-interest, it is sustainable. Addressing global issues can be good both for the corporation and for society at a time of increasing globalization and diminishing state influence.*

The point is made by Freeman, Harrison, Wicks, Parmar and De Colle (2010: 235) that most of the discussions about CSR take place from a Western perspective, and they correctly point out that there are also other important examples, for example from countries such as India, China and Japan. They also challenge the notion that the Western form of CSR originated in the 1950s by pointing out that some of the writings of Andrew Carnegie already addressed issues of the relationship between business and society at the beginning of the 20th century (Freeman *et al.*, 2010: 235). In the view of Freeman *et al*. (2010: 236), "intentions behind corporate social responsibility are better satisfied if we think about *company stakeholder responsibility*". They object to the use of the word "corporate", because it creates the impression that only large corporations have this responsibility. They also object to the word "social", because it represents an outdated conceptual scheme of separating a corporation's social and business responsibilities (Freeman *et al*., 2010: 263). The following example illustrates this point eloquently (Freeman *et al*., 2010: 261-262):

> *Assume that the CEO of firm A is asked the following: "Well, I know that your company makes products that consumers like, and that those products make their lives better. And I know that suppliers want to do business with your company because they benefit from the business relationship. I also know that employees really want to work for your company, and are satisfied with their remuneration and professional development. And let's not forget that you're a good citizen in the communities where you are located; among other things, you pay taxes on the profits you make. You compete hard but fairly. You also make an attractive return on capital for shareholders and other financiers. However, are you socially responsible?" We confess to having absolutely no idea what "socially responsible" could mean here.*

These authors point out, in a discussion on the contribution made by Carroll, that four different categories of social responsibility can be identified which correspond with different expectations from society. These categories were also included in Carroll's definition, discussed earlier. They are (Freeman *et al.*, 2010: 240):

- Economic responsibilities: the need to produce goods and services that society wants, and to sell them at a profit;
- Legal responsibilities: the need to respect the ground rules under which business is expected to operate;
- Ethical responsibilities: additional behaviour that is not a legal requirement but expected by society; and
- Discretionary responsibilities: for example, contributions that do not respond to a clearly defined expectation by society.

Enderle (2010) has pointed out that this description does not make provision for environmental issues, and also that it is not very helpful to position ethical responsibilities as something separate from other responsibilities that also have normative components.

Summarising a lively debate that has ensued over many decades is not easy, but the following is an attempt to describe how – in broad terms – different individuals and corporations have viewed CSR over time. There has been a logical development from traditional CSR to strategic CSR/CR. This has coincided with a shift from a focus on how profits are spent, to how profits are made. The different approaches can be described as a one-way street (traditional CSR), a two-way street (CSR based on enlightened self-interest) and a virtuous cycle (strategic CSR/CR based on strong moral values). Traditional CSR uses profits to spend on worthy causes, often as a way to offset the way in which the profits were made. This approach is aligned with the discretionary and ethical responsibilities outlined above. Enlightened self-interest is conscious of both risks and opportunities, and is therefore strong on stakeholder engagement. However, this approach is mostly opportunistic, and if the business case is not strong enough, corporations might quickly lose interest. Strategic CSR/CR is based on a deep understanding of the purpose of business and the way in which corporations form an integral part of society. Driven by a strong moral commitment and a clear understanding of the nature of the business, contributions are made in such a way that the corporation uses its particular strengths to thrive and contribute to societal needs at the same time. This is not a cheque book approach, but is based on the real capabilities and specific expertise of the corporation. Strategic CSR/CR achieves integration on two fronts. Firstly, so-called CSR activities are no longer peripheral, but are integrated into the core activities of the corporation. Secondly, the business case and moral case are not presented as part of an either/or choice (see Figure 4).

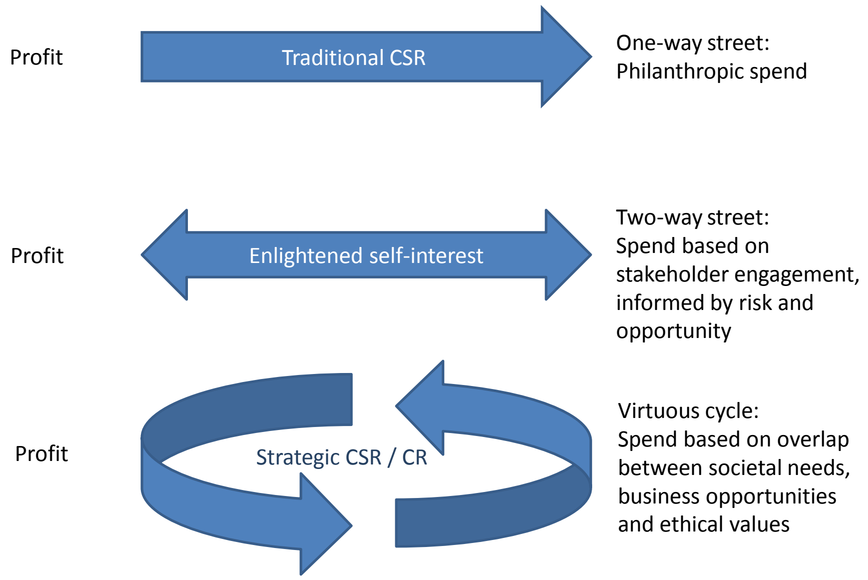

Figure 4: Different approaches to CSR

Phase 2 of this study entailed the development of a conceptual framework for corporate responsibility, and is discussed in detail in Chapter 7. This practical framework designed by Malan (2013b), which is introduced later, is presented in Figure 5.

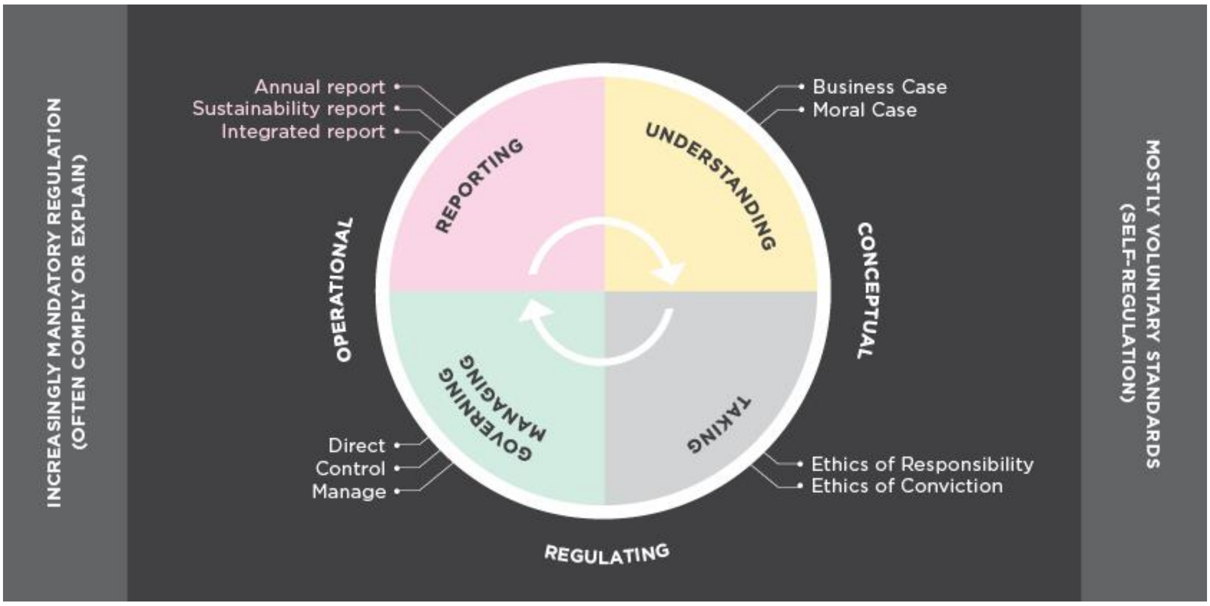

Figure 5: A practical framework for corporate responsibility
Source: Malan, 2013b

The framework outlines different dimensions of corporate responsibility:

1. Understanding responsibility;
2. Taking responsibility;
3. Governing and managing responsibility;
4. Reporting on responsibility; and
5. Regulating responsibility.

The framework is based on the theoretical contribution of the dissertation which coincides predominantly with the dimension of understanding. It is also aligned with the integrative nature of ISCT, in the sense that it provides a normative component (understanding responsibility and taking responsibility) and a component that is mostly based on empirical observation. Although the framework is only introduced formally in Chapter 7, Chapters 4 and 5 provide the main content to the dimension of understanding, and will only be recapped in Chapter 7.

1.7 Chapter outline

The dissertation is structured as follows:

- Chapter 2 deepens and expands the problem statement in global terms;
- Chapter 3 provides a short history of the UN Global Compact, and discusses its current status and the public debate about the initiative. It summarises the main arguments in favour of and against the initiative;
- Chapter 4 examines the moral purpose of business. It provides an overview of selected normative theories (including social contract theory and stakeholder theory);
- Chapter 5 provides a detailed discussion on Integrative Social Contracts Theory;
- Chapter 6 applies Integrative Social Contracts Theory to the UN Global Compact, supported by examples from selected South African and other African corporations;
- Chapter 7 presents the practical framework for corporate responsibility, based on Chapters 4, 5 and 6, and outlines the main dimensions of responsibility: understanding, taking, governing, managing, reporting and regulating; and
- Chapter 8 concludes with a summary of the research findings and scientific contribution of the dissertation.

The empirical analysis in this study is based on information available up to the end of March 2013. Where possible, more recent events and data are referenced, but this was not always possible.

Chapter 2: The Threatened Swan

2.1 The Threatened Swan

> *Society … is typically marked by a conflict as well as by an identity of interest. There is an identity of interest since social cooperation makes possible a better life for all than any would have if each were to live solely by his own efforts. There is a conflict of interests since persons are not indifferent as to how the greater benefits produced by their collaboration are distributed, for in order to pursue their ends they each prefer a larger to a lesser share.*
>
> *John Rawls*[3]

More than 350 years ago the Dutch painter Jan Asselijn produced one of his most famous paintings, *The Threatened Swan*. In this painting a hissing swan defends the eggs in her nest against an approaching and possibly aggressive dog.

Figure 6: *The Threatened Swan* by Jan Asselijn (circa 1650)

Courtesy: Rijksmuseum, Amsterdam

[3] This quote is taken from *A Theory of Justice* (Rawls, 1971: 4)

Later owners of the painting added inscriptions by painting labels (in Dutch) directly onto the canvas: the dog was referred to as the "enemy of the state", the swan was labelled the "pensionary", a reference to the position of principal public servant in the Dutch provinces, and the eggs under threat were labelled "Holland". These inscriptions are barely visible on the reproduced image. They were added within a particular context and referred to a specific individual, Johan de Witt, whose family emblem was a swan. De Witt was the pensionary at the time and instrumental in defending the interests of Holland against England.[4]

Figure 7: Detail from *The Threatened Swan* by Jan Asselijn (circa 1650)

Courtesy: Rijksmuseum, Amsterdam.

These rather crude additions to the painting – akin to graffiti – give a specific interpretation to the more generic 'good versus evil' symbolism that was probably the original intention of the painter. Involuntarily, we feel tempted to substitute our own inscriptions: who in our contemporary society would represent the dog, the swan and the eggs?

Within the context of this dissertation the painting is presented to assist an understanding of corporate responsibility. The eggs become much more than Holland – they represent our fragile society which comprises a vast, globalised network of corporations, governments and civil society. If nurtured properly, they have the potential to hatch and grow. The swan has a dual responsibility – to

[4] For a more detailed discussion of the painting, see http://www.rijksmuseum.nl/aria/aria_assets/SK-A-4?id=SK-A-4&page=0&lang=en&context_space=&context_id=, accessed 8 December 2014.

protect the eggs from outside threats, and to guide the young, once hatched, to fulfil their true potential. Within a global environment, the closest equivalent to a principal public servant is the United Nations – a body comprising representatives from 193 nations of the world, with the ability to protect sovereignty (e.g. through peacekeeping forces), and to guide action (e.g. through conventions, treaties and, as will be demonstrated here, through a corporate responsibility initiative). And the dog? The dog remains the enemy of states, societies and organisations – it represents a multiplicity of aggressive and negative forces, ranging from excessive greed and corruption to disrespect for and abuse of basic human rights and the natural environment. In the words of former United Nations Secretary-General Kofi Annan when he announced the formation of the Global Compact in 1999 (United Nations, 1999), "the global economy [is] vulnerable to backlash from all the 'isms' of our post-cold-war world: protectionism; populism; nationalism; ethnic chauvinism; fanaticism; and terrorism".

A closer look at *The Threatened Swan* reveals a few more interesting aspects that are relevant to this dissertation. Firstly, the date of the painting is unknown, but it is definitely before 1652, which was the year in which the first multinational corporate head office opened on the southern tip of Africa. On 6 April 1652, Jan van Riebeeck, a representative of the Dutch East India Company, arrived by ship at the notorious Cape of Storms and started a process of colonisation that would develop into an extended period of conflict over the next few hundred years between the Dutch, the British and the Boers for the land occupied by the indigenous population. The activities of prime minister of the Cape Colony Cecil John Rhodes and his British South Africa Company are described in some detail elsewhere (Malan, 2008), and his imperialist approach is neatly captured in his own plea to expand the British Empire: "Africa awaits us still, and it is our duty to seize every opportunity of acquiring more territory and we should keep this one idea steadily before our eyes that more territory simply means more of the Anglo-Saxon race, more of the best, the most human, most honourable race the world possesses" (Davidson, 2003: 9).[5]

Secondly, the painting highlights how economic considerations often influence our actions and how this can have an impact over the long term. In its commentary on the painting, the Rijksmuseum in Amsterdam explains that painters sometimes used a combination of cheap and expensive paints in order to save money. This is also the case with *The Threatened Swan*. The sky behind the swan was painted with expensive paint and has remained bright until today, while the rest of the painting has become faded and grey over time as a consequence of the use of a cheaper paint. So, the austerity measures implemented by Asselijn have resulted in a somewhat faded painting, but without those

[5] Hamann *et al*. (2008: 1) describe how there is still an "uneasy tension between the contemporary notion of corporate citizenship and the origins of some of the first truly multinational corporations".

measures the painting might never have been produced at all. To restore the painting to its former glory, we therefore require a pigment of the imagination!

Thirdly, the overlay of words and images produced by different people does not only invite different interpretations, but illustrates the attempts by the written word to capture and represent reality. This is particularly relevant for discussions about corporate reporting. In Umberto Eco's discussion of the limitations of interpretation (Eco, 1990: 1), he quotes from *The Secret and Swift Messenger* by John Wilkins, who in 1641 – about the same time that the inscriptions were added to *The Threatened Swan* – wrote:

> *How strange a thing this Art of Writing did seem at its first Invention, we may guess by the late discovered Americans, who were amazed to see Men converse with Books, and could scarce make themselves to believe that a Paper could speak …There is a pretty Relation to this Purpose, concerning an Indian Slave; who being sent by his Master with a Basket of Figs and a Letter, did by the Way eat up a great Part of his Carriage, conveying the Remainder unto the Person to whom he was directed; who when he read the Letter, and not finding the Quantity of Figs answerable to what was spoken of, he accuses the Slave of eating them, telling him what the Letter said against him. But the Indian (notwithstanding this Proof) did confidently abjure the Fact, cursing the Paper, as being a false and lying Witness. After this, being sent again with the like carriage, and a Letter expressing the just Number of Figs, that were to be delivered, he did again, according to his former Practice, devour a great Part of them by the Way; but before meddled with any, (to prevent all following Accusations) he first took the Letter, and hid that under a great Stone, assuring himself, that if it did not see him eating the Figs, it could never tell of him; but being now more strongly accused than before, he confesses the Fault, admiring the Divinity of the Paper, and for the future does promise his best Fidelity in every employment.*

We should therefore be mindful that documents – whether they are ancient philosophical treatises or glossy corporate publications – are interpretations and are at least one step removed from actions that could change the world for better or for worse. Of course, that is also true of this dissertation.

Finally, the image of the swan in business writing is more often associated with the phenomenon of the black swan, a metaphor for an unexpected and high-impact event, usually with negative consequences. The most direct contemporary example is the work of Nassim Taleb, with reference to his work from 2007, *The Black Swan: The Impact of the Highly Improbable*. To illustrate the phenomenon, he quotes the words of a famous ship's captain: "But in all my experience, I have never been in any accident … of any sort worth speaking about. I have seen but one vessel in distress in all my years at sea. I never saw a wreck and never have been wrecked nor was I ever in any predicament that threatened to end in disaster of any sort". These words were allegedly spoken in 1907 by E.J. Smith, captain of the ill-fated RMS Titanic, approximately five years before the ship sank.[6]

This dissertation was prepared in the aftermath of one of those black swans, the global financial crisis, an event that has caused huge disruption throughout the world. Black swans are unpredictable by nature, and it is possible that we might encounter another one before the effects of the previous one have played themselves out. The recommendations made in this dissertation should be viewed within this context. Although the recommendations are based on fundamental values that are shared by many people around the world and backed up by empirical data, the writer can never be so presumptuous as to present them as ultimate answers.

A final reflection on Asselijn's painting leads to a number of questions that will be addressed in this dissertation:

- Who does the dog represent and who the swan? For the Dutch it might have been quite obvious in the 17th century that the English were the "enemy of the state", but the English probably held exactly the same view about the Dutch. When we talk about morality and values, is it possible – with such opposing perspectives in mind – to develop consensus on what is right and what is wrong, and how organisations should behave?
- How does the swan know what is the best way to protect her eggs? Should she spend more time putting up defences to keep the dog out, or should she spend more time helping the chicks to grow strong and protect themselves? This is not a dilemma only for the UN, which is the swan within the context of this dissertation. Regulators around the world and in different disciplines are faced with this decision every day: to what extent can organisations be trusted (or enticed) to do the right thing, and to what extent does one need to force them to do what is required?
- On what information does the swan base her actions? The dog has been labelled an enemy of the state and is possibly acting aggressively, but what would have happened if the dog had a friendlier countenance and approached in a less threatening manner? We receive our information from reports, media releases, video clips, social media, etc. All of these have been prepared consciously and with the explicit aim to bring across a particular message. Even a factual report that has been verified by an accounting firm conveys one intended message rather than another.
- How does the swan balance her various responsibilities? Keeping an eye on the dog, protecting the eggs from other possible dangers, finding food for herself, and resting. These can be understood as governance issues, and require careful thinking and a full understanding of the possible implications of various courses of action.

[6] http://www.goodreads.com/work/quotes/2157806-the-black-swan-the-impact-of-the-highly-improbable, accessed 26 November 2014.

The Threatened Swan presents a swan protecting her eggs against an aggressive dog. The main focus area of this dissertation is an initiative of an international organisation with 193 member states, trying to protect the future well-being of the planet against the clear and present dangers presented by human rights abuses, forced labour, child labour, environmental degradation and corruption. The first step in this study is to have a closer look at the swan herself.

Chapter 3: The United Nations Global Compact

3.1 Introduction

This chapter provides a short history of the UN Global Compact, and discusses its current status, particularly from a South African perspective, as well as the public debate about the initiative. It summarises the main arguments in favour of and against the initiative, and examines its governance structure in some detail.

The business world is becoming increasingly complex and competitive. Corporations are confronted with challenges once thought to belong squarely in the domain of governments, for example climate change, political conflict, human rights abuses and increasing inequality between rich and poor. Partnerships between corporations, governments and civil society, unimaginable only a few years ago, have become much more common. Successful corporations in the 21st century cannot hide from these challenges – they have to confront them with commitment and innovation. If they can do so successfully it will be in their own interest and also in the interest of the planet. It will, in addition, be the right thing to do.

In 1999, Kofi Annan, then secretary-general of the United Nations (UN), introduced the concept of a Global Compact to multinational corporations gathered at the annual meeting of the World Economic Forum in Davos, Switzerland. On 31 January 1999 Annan stated the following (United Nations, 1999):

> *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. Globalization is a fact of life. But I believe we have underestimated its fragility. The problem is this. The spread of markets outpaces the ability of societies and their political systems to adjust to them, let alone to guide the course they take. History teaches us that such an imbalance between the economic, social and political realms can never be sustained for very long … I call on you – individually through your firms, and collectively through your business associations – to embrace, support and enact a set of core values in the areas of human rights, labour standards, and environmental practices.*

The response from the business sector was so encouraging that the concept was formalised approximately 18 months later, when the Global Compact was launched on 26 July 2000 at the UN

Headquarters in New York.[7] The launch took place a mere seven months after the infamous 'Battle for Seattle', where violent anti-globalisation protests broke out at the ministerial conference of the World Trade Organisation. Against a backdrop of frequently strained relationships, the launch of the Global Compact signalled a "new era of cooperation" between the business community and the UN (Rasche & Kell, 2010: 3). According to Rasche and Kell (2010: 3), the Global Compact was "the creative answer to the many unaddressed governance gaps which deteriorated as a result of the worldwide expansion of value and supply chains".

A strategy note from the United Nations, prepared by Georg Kell in preparation for the Davos speech of Mr Annan, acknowledges that UN values and principles in the areas of labour standards, human rights and environmental principles have become important points of reference for individual corporations and for global debates. The note proposes "that the Secretary General challenge the international business community to support, advocate and implement a framework of universal standards for business to use as benchmarks against which their internal codes of conduct and behaviour can be judged" (United Nations, 1998: 2). The note identified four potential gains from this initiative (United Nations, 1998: 3):

- Many corporations that are struggling with CSR will incorporate all or part of the UN reference points in their mission statements and operations;
- New dynamism would be infused into ongoing debates (within the International Labour Organisation, the United Nations Environment Programme and the Office of the United Nations High Commissioner for Human Rights) and result in new impetus to the UN;
- It would strengthen the secretary-general's leadership role in the evolving issue of UN/business relations; and
- It would offer a new point of departure for developing a broader case for balancing global governance in favour of developmental, social and environmental concerns.

The UN summed up its potential target market in a brutally honest way at this early stage, and the organisation should be commended for placing this information in the public domain. The note identified four types of corporations that were likely to support the initiative (and actually mentioned some by name): these were referred to as soft targets, free riders, corporations that would like to expand markets or reduce risk, and finally consulting organisations. They are described as follows (United Nations, 1998: 11-12):

[7] The Global Compact became the UN Global Compact in 2007, when the UN officially allowed its name to be attached to the initiative. For the sake of consistency in this dissertation, most references are to the UN Global Compact, even if they predate 2007.

- "Soft target" corporations are those forced to confront social responsibility in response to encounters with lobby groups (Shell, BP, Rio Tinto, Nike, McDonalds and Reebok are used as examples);
- "Free riders" are corporations that see general image gain by associating themselves with UN values/principles without necessarily having to confront the issues (Nokia and BMW are used as examples);
- Corporations that can gain from specific UN activities in order to expand markets or reduce risks (ABB is the only example mentioned here); and
- Consulting corporations (the "big five" accounting firms are used as examples). These corporations are described as "enthusiastic supporters of almost all forms of social responsibility as this creates a new market for auditing".

Table 1 contains the list of corporations that joined at the launch of the UN Global Compact on 26 July 2000.[8] Corporations that are listed with an asterisk were part of the *Financial Times* Global 500[9] ranking at the time. Neither of the two "free riders" mentioned was present.

Table 1: First corporations to join the UN Global Compact

Corporation	Country	Industry
3 Suisses International	France	General Retailers
ABB Limited*	Switzerland	Industrial Engineering
Aventis	France	Pharmaceuticals & Biotechnology
BASF SE*	Germany	Chemicals
Bayer AG*	Germany	Chemicals
BP plc*	United Kingdom	Oil & Gas Producers
BT Group plc*	United Kingdom	Fixed Line Telecommunications
Caisse des Depots	France	Financial Services
Credit Suisse*	Switzerland	Financial Services
Daimler AG*	Germany	Automobiles & Parts
Deloitte Touche Tohmatsu Limited	United States of America	Support Services
Deutsche Bank AG*	Germany	Financial Services
Deutsche Telekom AG*	Germany	Fixed Line Telecommunications
Eskom	South Africa	Electricity
Esquel Group of Companies	China	Personal Goods
Fibria Celulose S.A.	Brazil	Forestry & Paper

[8] Information supplied by Ana Blanco, UN Global Compact reporting manager, personal communication on 3 December 2014.
[9] For more information about this ranking, see http://www.ft.com/intl/cms/s/0/988051be-fdee-11e3-bd0e-00144feab7de.html#axzz3MUMLVHKv, accessed 21 December 2014.

Corporation	Country	Industry
GDF SUEZ*	France	Gas, Water & Multiutilities
Gerling Group of Insurance Companies	Germany	Financial Services
Grupo Concord	Mexico	Not Applicable
LM Ericsson*	Sweden	Mobile Telecommunications
Natura Cosmeticos S/A	Brazil	Chemicals
Nike, Inc.*	United States of America	Personal Goods
Norsk Hydro ASA	Norway	Industrial Metals & Mining
Novartis International AG*	Switzerland	Pharmaceuticals & Biotechnology
Orange*	France	Fixed Line Telecommunications
Organizacoes Globo	Brazil	Media
Pearson plc	United Kingdom	Media
Power Finance Corporation Limited	India	Financial Services
Rio Tinto plc*	United Kingdom	Industrial Metals & Mining
Royal Dutch Shell plc*	Netherlands	Oil & Gas Producers
Sanofi*	France	Pharmaceuticals & Biotechnology
SAP SE*	Germany	Software & Computer Services
Seri Sugar Mills Limited	Pakistan	Beverages
ST Microelectronics NV	Switzerland	Technology Hardware & Equipment
Statoil*	Norway	Oil & Gas Producers
Storebrand ASA	Norway	Financial Services
UBS AG*	Switzerland	Financial Services
Unilever*	United Kingdom	Food Producers
Volvo Car Corporation	Sweden	Automobiles & Parts

Source: Supplied by UN Global Compact office

It is clear that the initial support for the UN Global Compact came from Europe, with 73 per cent of the initial list of companies coming from this region. Percentages of participants from various regions are displayed in Figure 8.

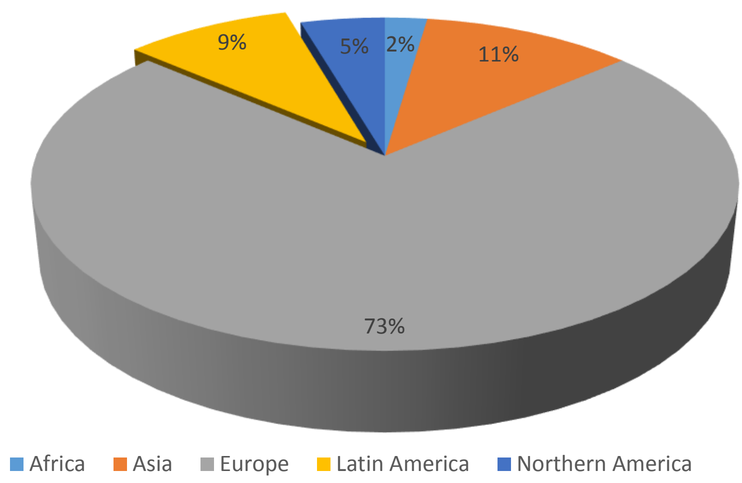

Figure 8: Regional representation of first corporations to join the UN Global Compact

The sectors that were the most highly represented were financial services (18 per cent) and oil and gas (9 per cent). These two sectors, along with chemicals, pharmaceuticals and biotechnology, and fixed line telecommunications (7 per cent each), represented almost 50 per cent of all the initial participants.

One of the first major additions to the initial nine principles of the Global Compact was the tenth principle on anti-corruption in 2004.[10] This was followed by a succession of initiatives, e.g. the introduction of the Communication on Progress Policy in 2005, and platforms such as Caring for Climate and The CEO Water Mandate. In 2014 a new initiative on Business for Peace (B4P) was launched, which aims to assist corporations that operate in conflict-affected and high-risk areas.

The UN Global Compact is the world's largest voluntary corporate citizenship initiative and describes itself as "a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption".[11] The 10 principles were 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, and the United Nations Convention against Corruption.

The 10 UN Global Compact principles are:

[10] https://www.unglobalcompact.org/what-is-gc/mission/principles/principle-10, accessed 17 September 2015.
[11] http://www.unglobalcompact.org/AboutTheGC/index.html, accessed 1 April 2013.

- Human rights
    - Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
    - Principle 2: Businesses should 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: Businesses should support the elimination of all forms of forced and compulsory labour;
    - Principle 5: Businesses should support the effective abolition of child labour; and
    - Principle 6: Businesses should support the elimination of discrimination in respect of employment and occupation.
- Environmental standards
    - Principle 7: Businesses should support a precautionary approach to environmental challenges;
    - Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility; and
    - Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.
- Anti-corruption
    - Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

All these principles are content rich and require detailed discussion. The next few paragraphs provide a broad overview of the different categories.[12]

3.1.1 Human rights

[12] The discussion of the four main categories relies heavily on information provided on the Global Compact website (www.unglobalcompact.org).

The human rights principles were derived from the Universal Declaration of Human Rights. Because human rights have traditionally been seen as the responsibility of nation states, corporations have struggled to come to terms with their own responsibilities in this regard. Within this context, the UN Global Compact aims to highlight the relevance of human rights for business, demonstrating the business case for human rights, emphasising practical solutions, and pointing to useful tools and guidance materials: "Our goal is to show that advancing human rights is not just about managing risks and meeting standards and expectations, it is also about realizing new opportunities."[13] Most of the important recent developments in this area are linked to the work of John Ruggie, former special representative of the secretary-general on the issue of human rights and former United Nations assistant secretary-general for strategic planning.

The contribution of Ruggie is captured in the document *Guiding Principles on Business and Human Rights* (United Nations, 2011). The Human Rights Council of the United Nations endorsed the guide document on how to implement the Protect, Respect and Remedy Framework – also commonly known as the Ruggie Framework, in its resolution 17/4 of 16 June 2011.

The Guiding Principles are grounded in the following (United Nations, 2011: 1):

> *States' existing obligations to respect, protect and fulfil human rights and fundamental freedoms; [t]he role of business enterprises, as specialised organs of society performing specialised functions, to comply with all applicable laws and to respect human rights; [and the] need for rights and obligations to be matched with appropriate and effective remedies when breached.*

The specific role of business is relevant within the context of a discussion on the UN Global Compact. The following foundational principles are suggested by the guide document (United Nations, 2011: 13-16):

> *Business enterprises should respect human rights. This means that they should avoid infringing the human rights of others and should address adverse human rights impacts with which they are involved. The responsibility of business enterprises to respect human rights refers to internationally recognised human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. The responsibility to respect human rights requires that business enterprises: Avoid causing or contributing to adverse human rights impacts through their own activities, and*

[13] http://www.unglobalcompact.org/Issues/human_rights/index.html, accessed 1 April 2013.

address such impacts when they occur; and [s]eek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.

The responsibility of business enterprises to respect human rights applies to all enterprises regardless of their size, sector, operational context, ownership and structure. Nevertheless, the scale and complexity of the means through which enterprises meet that responsibility may vary according to these factors and with the severity of the enterprise's adverse human rights impacts. In order to meet their responsibility to respect human rights, business enterprises should have in place policies and processes appropriate to their size and circumstances, including: A policy commitment to meet their responsibility to respect human rights; [a] human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights; and [p]rocesses to enable the remediation of any adverse human rights impacts they cause or to which they contribute.

According to the guide document, "[b]usiness enterprises need to know and show that they respect human rights" (United Nations, 2011: 16). A further list of operational principles is provided (United Nations, 2011: 16-26). These principles cover a wide range of activities, including the need for a policy commitment, due diligence, risk assessment, integration of findings across functions and processes, and tracking effectiveness and communicating results through reporting. The guide document also specifically addresses the need for remediation in principle 22: "Where business enterprises identify that they have caused or contributed to adverse impacts, they should provide for or cooperate in their remediation through legitimate processes" (United Nations, 2011: 24). Finally, the need for compliance is highlighted and a guideline for prioritisation is provided in principle 24: "Where it is necessary to prioritize actions to address actual and potential adverse human rights impacts, business enterprises should first seek to prevent and mitigate those that are most severe or where delayed response would make them irremediable" (United Nations, 2011: 26).

The crux of the matter, according to Ruggie, is that business should respect human rights (do no harm) and implement remedial action only where they discover that they are directly involved in the abuse of human rights. Ruggie states that it is not the responsibility of corporations to do more, but that they can do more for different reasons: "Companies may undertake additional human rights commitments for philanthropic reasons, or to protect and promote their brand, or to develop new business opportunities" (United Nations, 2010: 14).

Williams (2014: 56) has called this the loss of a teachable moment. He supports the view of Leon Sullivan, the civil rights leader and anti-apartheid activist, who would have opposed Ruggie's stance that capacity (or power) does not translate into responsibility (i.e. "can does not imply ought"). Sullivan emphatically asserts that capacity has no immediate relevance and that human rights violations indeed imply 'ought'. Capacity is only relevant in terms of distributing the responsibilities, which means that the biggest corporations can have the biggest impact. Williams concludes that "the responsibility to remedy is a moral obligation and not [an] optional, philanthropic or charity endeavor" (Williams, 2014: 59). The existence of moral obligations for corporations will be discussed in the next chapter.

To conclude the discussion on human rights, it is important to mention the work of the Global Citizenship Commission. The Commission was formed in 2013 and is chaired by former United Kingdom prime minister Gordon Brown. At the time of writing the Commission was examining the 1948 Universal Declaration of Human Rights, taking into account the global developments since its inception. The Commission has four main focus areas: the issue of so-called "missing rights", social and economic rights, responsibility for upholding the rights set out in the Universal Declaration of Human Rights, and the place of human rights in a global ethic. A final report is expected to be submitted to the secretary-general of the UN in 2015.

3.1.2 Labour standards

The labour principles of the UN Global Compact are derived (in fact directly copied) from the ILO Declaration on Fundamental Principles and Rights at Work.[14] This declaration was adopted in 1998, and member states of the ILO commit themselves to respect and promote principles and rights in four categories:

- Freedom of association and the effective recognition of the right to collective bargaining;
- Elimination of all forms of forced or compulsory labour;
- Effective abolition of child labour; and
- Elimination of discrimination in respect of employment and occupation.

A report by the International Labour Office in Geneva highlights the importance of the first labour principle as well as the link with human rights. The report emphasises the fact that freedom of association is a fundamental human right and a core value of the ILO. It argues that the rights to organise and to bargain collectively are enabling rights that support democracy, sound labour market governance and decent working conditions (International Labour Office, 2008: ix).

The report also makes the point that corporate responsibility initiatives can promote respect for labour standards, but qualifies this statement by insisting that trade unions should be involved in the

[14] http://www.ilo.org/declaration/lang--en/index.htm, accessed 20 November 2014.

process (International Labour Office, 2008: xi). It is fair to say that the majority of UN Global Compact signatories probably struggle to establish the kind of working relationship with trade unions that would be required to achieve this.

According to the ILO, forced labour occurs where "work or service is exacted by the State or individuals who have the will and power to threaten workers with severe deprivations, such as withholding food or land or wages, physical violence or sexual abuse, restricting peoples' [sic] movements or locking them up".[15] According to an estimate provided by the ILO in 2012,[16] nearly 21 million people are victims of forced labour across the world. Of these, it is estimated that 56 per cent come from the Asia-Pacific region, 18 per cent from Africa and nine per cent from Latin America.

The United Nations defines child labour as "work that children should not be doing because they are too young to work, or – if they are old enough to work – because it is dangerous or otherwise unsuitable for them".[17] A child is defined as anyone below the age of 18 years. The UN Convention No. 138 on the Minimum Age for Admission to Employment (1973) provides the following framework for the minimum age at which children can work, with possible exceptions for developing countries.

Table 2: Minimum age at which children can work

Categories	The minimum age at which children can start work	Possible exceptions for developing countries
Hazardous work Any work which is likely to jeopardise children's health, safety or morals should not be done by anyone under the age of 18.	18 (16 under strict conditions)	18 (16 under strict conditions)
Basic minimum age The minimum age for work should not be below the age for finishing compulsory schooling, which is generally 15.	15	14
Light work Children between the ages of 13 and 15 years old may do light work, as long as it does not threaten their health and safety, or hinder their education or vocational orientation and training.	13–15	12–14

Source: International Labour Organisation, 1973.

[15] http://www.ilo.org/declaration/principles/eliminationofchildlabour/lang--en/index.htm, accessed 27 November 2014.
[16] http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_181961/lang--it/index.htm, accessed 27 November 2014.
[17] http://www.un.org/en/globalissues/briefingpapers/childlabour/, accessed 27 November 2014.

The UN Convention No. 182 on the Worst Forms of Child Labour (1999) defines the following types of labour as the worst forms, which should be prohibited for all persons under 18 years:[18]

> *All forms of slavery or practices similar to slavery, such as the sale of and trafficking in children, debt bondage and serfdom, and forced or compulsory labour, including forced or compulsory recruitment of children for use in armed conflict; the use, procuring or offering of a child for prostitution, for the production of pornography or pornographic performances; the use, procuring or offering of a child for illicit activities, in particular for the production of and trafficking in drugs, as defined in the relevant international treaties; [and] work which, by its nature or the circumstances in which it is carried out, is likely to harm the health, safety or morals of children.*

The ILO's Discrimination (Employment and Occupation) Convention, 1958 (No. 111), defines discrimination as follows:[19]

> *For the purpose of this Convention the term discrimination includes any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation; and such other distinction, exclusion or preference which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation as may be determined by the Member concerned after consultation with representative employers' and workers' organisations, where such exist, and with other appropriate bodies. Any distinction, exclusion or preference in respect of a particular job based on the inherent requirements thereof shall not be deemed to be discrimination.*

3.1.3 Environmental standards

The UN Global Compact's environmental principles are derived from the Rio Declaration on Environment and Development.[20] According to the UN Global Compact, challenges such as climate change, water availability and pollution, loss of biodiversity and deforestation must be confronted and dealt with, but such challenges also present opportunities and benefits to corporations. These include cost saving through improved efficiencies, enhanced revenue as a result of related products, building corporate and brand reputation, improving employee and community health, and helping to create sustainable societies and markets.[21] In partnership with Duke University, the UN Global Compact

[18] http://www.un.org/en/globalissues/briefingpapers/childlabour/intlconvs.shtml, accessed 27 November 2014.
[19] http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C111, accessed 27 November 2014.
[20] http://www.un.org/documents/ga/conf151/aconf15126-1annex1.htm, accessed 21 December 2014.
[21] http://www.unglobalcompact.org/Issues/Environment/index.html, accessed 1 April 2013.

office developed an environmental stewardship strategy. Environmental stewardship is defined as the "comprehensive understanding and effective management of critical environmental risks and opportunities related to climate change, emissions, waste management, resource consumption, water conservation, biodiversity protection and ecosystem services" (United Nations Global Compact & Duke University, 2010: 9).

The document outlines an approach to environmental management that is based on four pillars (United Nations Global Compact & Duke University, 2010: 8):

- Embedding environmental stewardship into all facets of the organisation;
- Balancing short-term and long-term goals;
- Diffusing best practices throughout value chains and business networks through collaboration and stakeholder engagement; and
- Translating best practices into processes and practices that are applicable in diverse geographies.

The UN Global Compact has decided to focus extensively on two specific issues: climate change and water sustainability. For these issues separate campaigns have been created: Caring for Climate: The Global Business Leadership Platform and The CEO Water Mandate. Caring for Climate is a joint initiative of the UN Global Compact, UN Environment Programme and the secretariat of the UN Framework Convention on Climate Change. In December 2014 there were 390 signatories to this initiative.[22] The CEO Water Mandate covers six areas: direct operations, supply chain and watershed management, collective action, public policy, community engagement and transparency. In December 2014 there were 130 signatories to this initiative.

3.1.4 Anti-corruption

The anti-corruption principle was derived from the UN Convention against Corruption, which was adopted by the UN General Assembly on 31 October 2003 and became effective on 14 December 2005. According to the UN Global Compact, corruption is one of the major hindrances to sustainable development, with a disproportionate impact on poor communities and a considerable impact on the private sector, resulting in impeded growth, distorted competition and the creation of legal and reputational risks.[23] This tenth principle was added to the UN Global Compact on 24 June 2004.

[22] http://caringforclimate.org/about/list-of-signatories/, accessed 1 December 2014.
[23] http://www.unglobalcompact.org/Issues/transparency_anticorruption/index.html, accessed 1 April 2013.

Transparency International has defined corruption as "the abuse of entrusted power for private gain".[24] According to Transparency International, corruption can be classified as grand, petty or political. This classification depends on the amounts of money lost and the sector where it occurs.[25]

The UN Global Compact, in partnership with other organisations such as the UN Office on Drugs and Crime, Transparency International, the International Chamber of Commerce, the World Economic Forum Partnership against Corruption and the World Bank Institute, has created an impressive platform for learning and dialogue.

The UN Global Compact has suggested three elements that should be considered when corporations fight corruption:[26]

- Internal – this has to do with internal policies and programmes;
- External – this has to do with sharing experiences and best practices; and
- Collective – this takes place when corporations join forces with industry peers and other stakeholders.

On 10 December 2014 the UN Global Compact celebrated the 10th anniversary of the 10th principle. At this event, Executive Director Georg Kell said the following:[27]

> *It is as clear today as it was a decade ago, that a commitment to environmental and social sustainability is not complete without an equally strong commitment to anti-corruption … All progress made in addressing issues of climate change, labour and human rights would be lost without the fundamentals of transparency and good governance.*

The fight against corruption is of particular importance within a South African environment. South Africa has slipped significantly in the rankings of Transparency International's Corruption Perceptions Index. In 2004 South Africa was ranked at number 44. It then slipped 28 places in less than 10 years to be ranked at number 72 in 2013, before recovering somewhat by rising to number 67 in 2014.[28] The way in which UN Global Compact participants from South Africa report on anti-corruption activities will be discussed in more detail in Chapter 6.

[24] http://www.transparency.org/whoweare/organisation/faqs_on_corruption/2/#defineCorruption, accessed 1 December 2014.
[25] http://www.transparency.org/whoweare/organisation/faqs_on_corruption/2/#defineCorruption, accessed 1 December 2014.
[26] https://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/principle10.html, accessed 1 December 2014.
[27] https://www.unglobalcompact.org/news/1531-12-10-2014, accessed 15 December 2014.
[28] Detailed historical results of the index can be viewed at http://www.transparency.org/research/cpi/overview, accessed 21 December 2014.

3.2 Requirements for UN Global Compact participation

Companies that join the UN Global Compact are expected to fulfil certain requirements.[29] These are:

> *Make the Global Compact and its principles an integral part of business strategy, day-to-day operations and organisational culture; [i]ncorporate the Global Compact and its principles in the decision-making processes of the highest-level governance body (i.e. Board); [c]ontribute to broad development objectives (including the Millennium Development Goals) through partnerships; [i]ntegrate in the annual report (or in a similar public document, such as a sustainability report) a description of the ways in which the company implements the principles and supports broader development objectives (also known as the communication on progress or COP); and [a]dvance the Global Compact and the case for responsible business practices through advocacy and active outreach to peers, partners, clients, consumers and the public at large.*

The COP is one of the most important tools to report (to external stakeholders) on how signatories to the UN Global Compact have supported its principles. It remains a subjective account, even if verified externally, but does provide useful insight into activities of UN Global Compact signatories, and is probably the most important way in which stakeholders can assess the performance of a participating corporation. The COPs of South African participants will be discussed in detail in Chapter 6.

Overall participation in the UN Global Compact is broken down in terms of business and non-business participants. The business sector is divided into companies (with more than 250 employees) and small and medium enterprises (with fewer than 250 employees). Businesses are further broken down into different industry sectors. Non-business participants are broken down into the following categories: academic, business associations (global and local), cities, foundations, labour (global and local), NGOs (global and local) and public sector organisations. Only business participants are required to submit COPs. Since November 2013, non-business participants have been expected to submit a Communication on Engagement (COE).

3.3 The differentiation programme

With more than 8 000 business participants, it became necessary to differentiate in terms of the level of participation. Three levels were introduced by the UN Global Compact:[30]

[29] https://www.unglobalcompact.org/HowToParticipate/Business_Participation/index.html, accessed 18 December 2014.
[30] https://www.unglobalcompact.org/COP/differentiation_programme.html, accessed 7 December 2014.

- The Learner Platform is for companies which submitted a timely COP but did not meet all minimum COP content requirements. The UN Global Compact office provides companies on the Learner Platform with support and assistance.
- The Active level is for business participants that fulfil all minimum COP content requirements, which includes addressing all Global Compact issue areas and communicating directly with stakeholders.
- The Advanced level is for companies that strive to be top performers and declare that they have adopted and report on a range of best practices in sustainability governance and management. These activities must be based on the *Blueprint for Corporate Sustainability Leadership* and the *UN Global Compact Management Model* as well as other core United Nations and Global Compact documents (e.g. the *Guiding Principles on Business and Human Rights* and *Anti-Corruption Reporting Guidance)*.

In 2011 the UN Global Compact introduced a new platform, LEAD,[31] to give recognition to the most committed corporations. There are only about 50 participants in the LEAD programme. These corporations are challenged to implement the UN Global Compact's *Blueprint for Corporate Sustainability Leadership*, which was endorsed at the Leaders Summit in New York in June 2010.

3.4 Current status of the UN Global Compact

At the end of March 2013 there were more than 11 000 participants[32] in the UN Global Compact. This included 6 745 business participants, of which 5 251 were regarded as active participants.

Business participants were categorised as depicted in Table 3.

Table 3: Business participants in the UN Global Compact (March 2013)

Business category	Active	All
Private company	4087	5450
Publicly traded	858	929
Subsidiary	147	183
State-owned	159	183
Total	**5 251**	**6 745**

[31] https://www.unglobalcompact.org/HowToParticipate/Lead/index.html, accessed 7 December 2014.

[32] In December 2014 this number was more than 12 000. However, the number of 11 000 is highlighted since the analysis for this dissertation was performed based on the numbers as they were in March 2013.

There were also 3 765 non-business participants, which were categorised as depicted in Table 4.

Table 4: Non-business participants in the UN Global Compact (March 2013)

Non-business category	Participants
Academic	679
Global business association	77
Local business association	657
City	66
Foundation	344
Global labour	5
Local labour	48
Global NGO	351
Local NGO	1 378
Public sector organisation	160
Total	**3 765**

A UN Global Compact Implementation Survey conducted by The Wharton School at the University of Pennsylvania in 2011, represented the views of 1 325 UN Global Compact participants from more than 100 countries (UN Global Compact, 2012).

Fifty-six per cent of all respondents represented Europe, followed by Latin America (18 per cent), Asia (14 per cent) and Northern[33] America (5 per cent). Forty per cent of the companies included in the survey had fewer than 250 employees (thus classified as small and medium enterprises), while 35 per cent had between 250 and 5 000 employees, and 19 per cent had between 5 000 and 50 000 employees. Sixty-six per cent of companies were privately-owned, 22 per cent were publicly-traded, and 7 per cent were either partially or fully state-owned.

The survey highlighted the following issues:

- Communication on progress (COP) submissions increased by 46 per cent from 2010 to 4 150 submissions;
- Seventy-seven per cent of UN Global Compact corporations were in compliance with the COP policy;
- Forty-four per cent of corporations indicated that they had a public policy strategy that was aligned with their commitment to the UN Global Compact;

[33] The survey specifically refers to Northern America (as opposed to North America).

- Thirty-eight per cent of corporations stated that their participation in the UN Global Compact had either significantly helped or was essential to advancing corporate responsibility policies and practices;
- A gap was identified in terms of moving from policy to action in all issues areas – the majority of corporations had policies in place, yet related actions to support implementation were conducted at significantly lower levels;
- Most action happened at the environmental and labour standards levels, followed by anti-corruption (which had increased steadily for two consecutive years), while action on human rights remained the lowest;
- Sixty-three per cent of corporations indicated consideration of supplier adherence to the principles, but there was limited action to support and incentivise such adherence;
- Seventy-five per cent of corporations indicated that they were taking action to advance broader UN goals and issues – the areas in which they did this, in order of popularity, were environmental sustainability and education as the clear leaders, followed by poverty, gender equality and child health. The three least popular issues were maternal health, HIV/Aids and other diseases, and peace and security;
- Corporations partnered most frequently with NGOs (78 per cent), other corporations (65 per cent) and academia (58 per cent). Partnerships with the UN (34 per cent), and less frequently with other multilateral organisations (33 per cent);
- Fifty-one per cent of corporations indicated some level of engagement with the UN Global Compact's local networks; and
- Nine-hundred and sixty-three corporations were expelled in 2011 for failure to disclose progress (68 per cent of these were small and medium enterprises).

The top reasons for engagement in the UN Global Compact are displayed below in Figure 9:

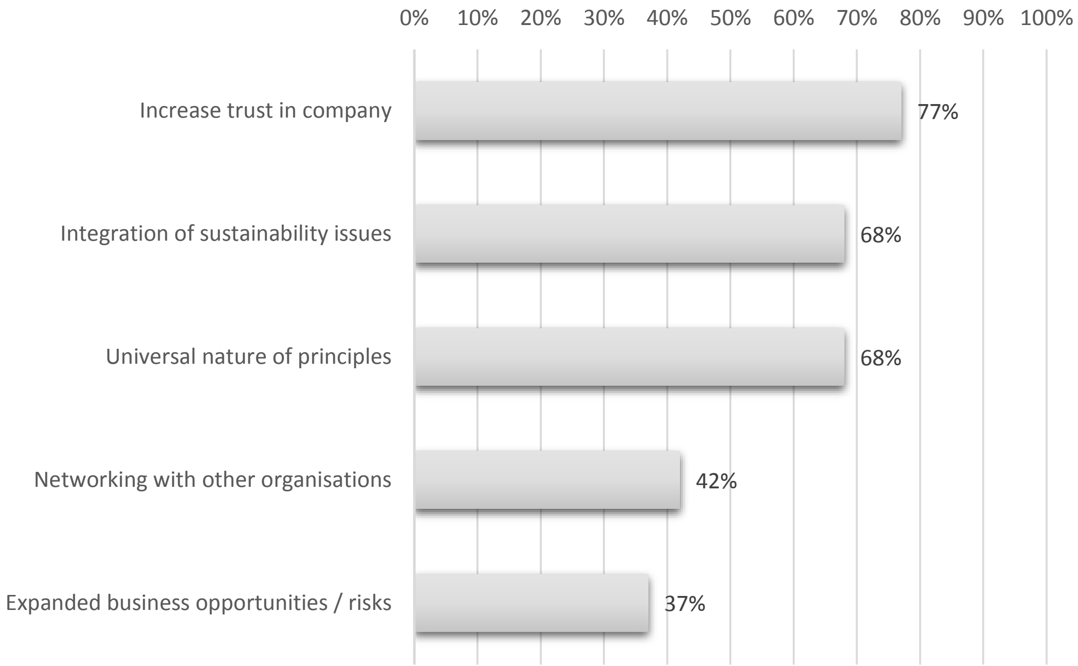

Figure 9: Top reasons for engagement in the UN Global Compact

Source: UN Global Compact, 2012

In terms of the impact of UN Global Compact participation on corporate responsibility policies and practices, there was a definite shift, with almost 40 per cent of corporations reporting that advancement of such policies and practices would not have happened without the prompting of the UN Global Compact, or that participation in the UN Global Compact significantly assisted the development of their policies and practices.

In terms of action taken to advance the UN Global Compact principles, the following were highlighted:

- Awareness raising and training were the top actions taken;
- Systems to monitor and evaluate corporate performance increased in all areas, particularly human rights and the environment;
- Only a minority of corporations indicated public disclosure of policies and actions per issue area, ranging from less than 20% on human rights to approximately 40% for environmental issues;
- Risk assessment and multi-stakeholder dialogue were the least implemented areas (with the exception of environmental risk assessments, which were conducted by approximately 50 per cent of corporations); and
- Less than 40% of even the largest corporations indicated that they were assessing risks in the area of human rights and corruption.

These statistics are a cause for concern because they indicate a lack of focus on risk and material issues within corporations, and quite often only a minority are taking appropriate action. This is supported by the fact that 'expanded business opportunities and risks' was the least popular reason provided for engagement in the UN Global Compact. The fact that most corporations wanted to engage to 'increase trust' is somewhat ambiguous, since loss of trust can be interpreted as either a risk issue or a public relations issue.

In a follow-up survey (2013), done once again in cooperation with the Wharton School at the University of Pennsylvania, some significant new developments can be identified. For this survey, the sample was bigger (1 712 respondents from 113 countries), but the regional distribution was very similar (the top four regions differ by an average of 1,25 per cent from the 2011 sample): Europe (56 per cent), Latin America (18 per cent), Asia (14 per cent) and Northern America (4 per cent) (United Nations Global Compact, 2013: 6).

The format of this survey was different from the 2011 survey and the results are therefore difficult to compare. The following are the key findings from the 2013 survey (United Nations Global Compact, 2013: 7):

- There was a clear gap between what corporations 'say' and what they 'do': 65 per cent of respondents developed sustainability policies at the CEO level, while only 35 per cent trained managers to integrate sustainability into strategies and operations;
- Size is the most significant factor in sustainability performance: Large corporations were significantly more likely to move beyond commitment to action across all issue areas;
- Supply chains were an obstacle to improved performance: supplier sustainability ranked as the top barrier for large companies in their advancement to the next level of sustainability performance; and
- Corporations saw the big picture: 70 per cent of UN Global Compact corporations were advancing broad UN goals and issues by aligning their core business strategy with such goals and issues, tying social investment to core competencies, advocating the need for action, and implementing partnership projects.

3.4.1 African participation in the UN Global Compact

African participation in the UN Global Compact got off to a slow start with a solitary participant signing up. The South African electricity utility corporation, Eskom, became the first African corporation to sign up on day one: 26 July 2000. More than a year elapsed before the second African signatory joined in August 2001 – once again it was a South African corporation, namely Sasol. Again there was a waiting period of more than a year before the third participant, the Coca-Cola Bottling Company of Ghana, joined on 31 August 2002. There were three new joiners in 2003, three in 2004 and only two in 2005, before a sudden surge of 31 corporations joined in 2006 and another 20 in 2007. On 11 April 2008, 17 South African corporations signed up simultaneously at an event in Johannesburg, coordinated by the National Business Initiative, the South African focal point of the UN Global Compact. The total number of new joiners for 2008 was 29, but from 2009 onwards there was a steady decline in new joiners until the cut-off date for this study (March 2013). The tables below present the new joiners and cumulative numbers over the 13-year period. The decline in cumulative numbers is the result of the delisting of 34 non-communicative companies since 2010.

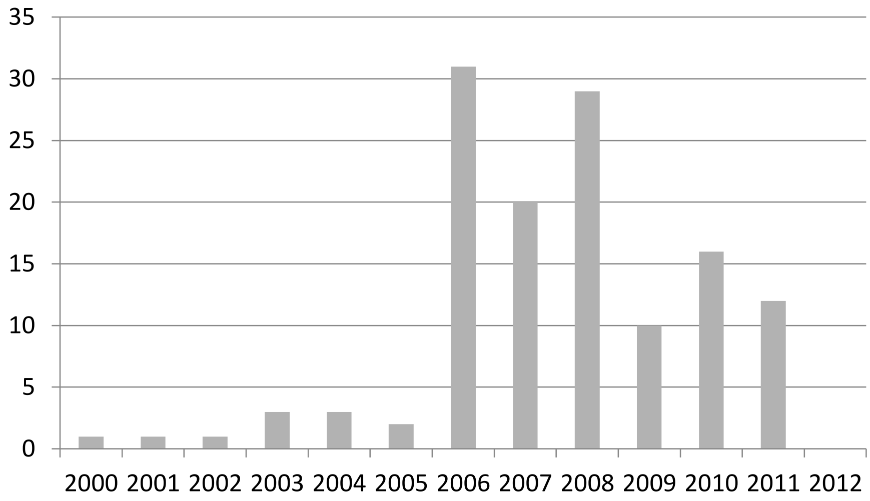

Figure 10: New UN Global Compact participants from Africa (2000–2012)

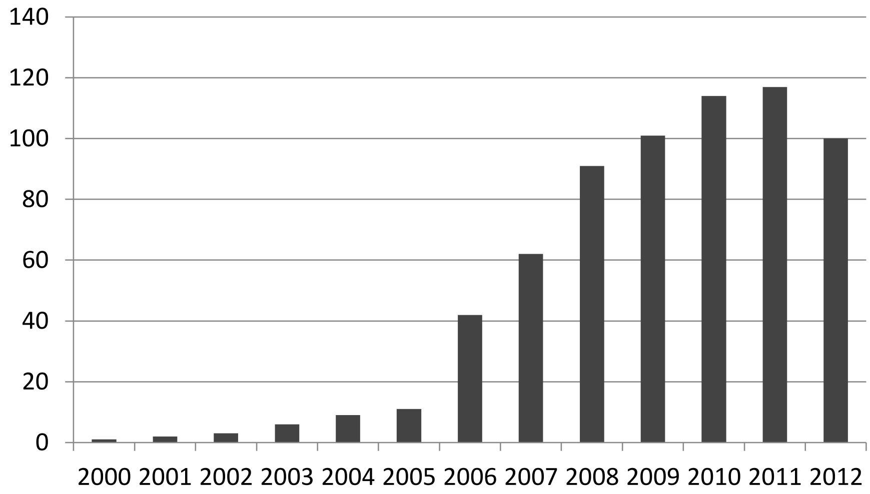

Figure 11: Cumulative UN Global Compact participants from Africa (2000–2012)

African participation in the UN Global Compact at the end of March 2013 is depicted in Table 5.

Table 5: African participation in the UN Global Compact (March 2013)

Description	Active	All
All participants (including non-business)	467	775
African companies	76	163
South African companies	32	43

References in this dissertation are made only to active participants.

The 467 active participants can be broken down in terms of organisation type as shown in Table 6.

Table 6: Participation in terms of organisation type

Organisation type	Number
Academic	24
Business association (global)	44
Business association (local)	1
City	1
Company	76
Foundation	16
International organisation	1
Labour (local)	3
Microenterprise	2
NGO (global)	42
NGO (local)	167
Public sector organisation	10
Small and medium-sized enterprise (SME)	80
Total	**467**

In terms of country representation, Nigeria was the best represented by far, as may be seen in Table 7.

Table 7: Participation in terms of country representation (all participants)

Country	Number
Nigeria	97
Kenya	63
Ghana	59
South Africa	59
Cameroon	23

Country	Number
Uganda	21
Cote d'Ivoire	18
Sudan	15
Mauritius	12
Senegal	10
Democratic Republic of the Congo	9
Mozambique	9
Sierra Leone	8
Tanzania	7
Zambia	7
Namibia	6
Benin	5
Ethiopia	5
Central African Republic	4
Togo	4
Burundi	3
Madagascar	3
Malawi	3
Burkina Faso	2
Gambia	2
Liberia	2
Niger	2
Somalia	2
Zimbabwe	2
Cape Verde	1
Gabon	1
Rwanda	1
São Tomé and Príncipe	1
Seychelles	1
Total	**467**

In terms of the active participation of corporations, South Africa however remained the leading country in terms of the numbers, as shown in Table 8.

Table 8: Participation in terms of country representation (corporations only)

Country	Number
South Africa	32
Kenya	13
Ghana	7
Nigeria	6
Mauritius	5
Uganda	3
Cameroon	1
Cape Verde	1
Gabon	1
Malawi	1
Mozambique	1
Namibia	1
Seychelles	1
Sudan	1
Tanzania	1
Togo	1
Total	**76**

The active African corporations, in order of date of joining, are listed in Appendix B. The breakdown of these corporations in terms of sector is shown in Table 9.

Table 9: Active African company participants (by sector)

Sector	Number
Financial Services	13
Food Producers	7
Banks	5
Beverages	5
Industrial Metals & Mining	5
Forestry & Paper	4
General Industrials	4
Travel & Leisure	4
Electricity	3
Health Care Equipment & Services	3
Mobile Telecommunications	3

Sector	Number
Construction & Materials	2
Fixed Line Telecommunications	2
General Retailers	2
Industrial Transportation	2
Mining	2
Support Services	2
Aerospace & Defence	1
Chemicals	1
Electronic & Electrical Equipment	1
Household Goods & Home Construction	1
Media	1
Oil & Gas Producers	1
Real Estate Investment & Services	1
Software & Computer Services	1
Total	**76**

3.4.2 South African participation in the UN Global Compact

Listed below are the South African corporations (in order of date joined) as at the end of March 2013. The submission date of their most recent COP is also provided (at the time of writing 12 companies had not yet submitted their first COP).

Table 10: Active South African companies at 28 February 2013

Join date	Organisation name	Date of last COP
26/07/2000	Eskom	19/09/2012
22/08/2001	Sasol	26/11/2012
04/08/2004	AngloGold Ashanti	05/05/2012
08/12/2004	Barloworld	11/12/2012
11/10/2005	Nedbank	27/05/2012
10/02/2006	FirstRand	04/03/2013
13/10/2006	Gold Fields	06/05/2012
29/03/2007	Deloitte South Africa	08/11/2012
24/05/2007	Exxaro Resources	21/05/2012
11/12/2007	Coca-Cola Sabco	09/07/2012

Join date	Organisation name	Date of last COP
15/01/2008	Unilever South Africa	10/01/2013
23/01/2008	Public Investment Corporation	01/02/2013
27/02/2008	Sanlam	28/06/2012
25/03/2008	Sappi	07/02/2013
08/04/2008	Impala Platinum Holdings	17/10/2012
09/04/2008	Richards Bay Coal Terminal Company	18/07/2012
14/04/2008	Pick n Pay	05/09/2012
18/09/2008	Mondi	05/08/2012
17/12/2009	Allied Electronics Corporation Limited (Altron)	01/11/2012
20/10/2011	Edcon	25/01/2013
27/03/2012	Cliffe Dekker Hofmeyr Inc.	No COP submitted
05/06/2012	Royal Bafokeng Platinum	No COP submitted
08/06/2012	Tongaat Hulett	No COP submitted
25/07/2012	Transnet	No COP submitted
29/08/2012	Oceana Group	No COP submitted
11/10/2012	South African Express Airways	No COP submitted
14/11/2012	South African Airways	No COP submitted
12/12/2012	MTN Group	No COP submitted
13/12/2012	Investec	No COP submitted
13/12/2012	Netcare	No COP submitted
17/12/2012	South African Post Office	No COP submitted
12/02/2013	The South African Forestry Company	No COP submitted

The specific performance of South African signatories of the UN Global Compact was assessed in detail and will be discussed fully later. For the moment, the discussion is restricted to a more general assessment of the UN Global Compact.

3.5 Assessing the UN Global Compact

Has the UN Global Compact been a success? It is injudicious to evaluate the success of this initiative by using numbers. The number of more than 8 000 business participants sounds impressive and certainly makes it the largest voluntary corporate responsibility initiative in the world, but how does 8 000 participants compare with the overall population of global businesses? McIntosh and Waddock (2010: 220) quote United Nations Conference on Trade and Development (UNCTAD) numbers estimating the global number of transnational corporations at 70 000. With the bulk of UN Global

Compact signatories coming from the private company category, and the fact that there are fewer than 1 000 publicly traded companies that are active within the UN Global Compact, the UN Global Compact membership sounds less impressive.

Perhaps the fact that the 10 principles embody the key challenges that the world faces in terms of long-term sustainability should be seen as a better measurement of success. But again, the UN Global Compact did not develop these principles from scratch – they were merely collated from existing treaties and conventions. This comprehensive scope of coverage should rather be seen as an indication of potential impact, not success.

The measurement and assessment of *actual* impact, as opposed to potential impact, could perhaps provide an indication of success. However, it raises the complex methodological issue of causality. To what extent can a causal relationship be demonstrated between participation in the UN Global Compact and good corporate behaviour? Similarly, does poor corporate behaviour by participants indicate failure on the part of the UN Global Compact? For example, Sasol joined the UN Global Compact in 2001, and since then has been involved in a number of price fixing scandals. The company has appeared before the Competition Commission seven times since 2009, more than any other South African company.[34] It was also fined €318,2 million by the European competition commission in 2009 after it was found that its wax business in Germany participated in a paraffin wax cartel. On appeal, this fine was reduced to €168,2 million in July 2014.[35]

In another high profile case, Petrochina, who joined the UN Global Compact in 2007 was targeted by a non-profit organisation, Investors Against Genocide, for its human rights record in the Sudan.[36] After consultation, the UN Global Compact decided not to take any action against Petrochina, and the reason that was given in an official letter was that the matters raised could equally apply to a number of companies operating in conflict prone countries.[37]

The UN Global Compact is not a compliance-based initiative, and although its integrity measures make provision for a dialogue facilitation process in the case of credible allegations of systematic or egregious abuse of its overall aims and principles, it has never expelled any company for a reason other than non-submission of a COP.

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[34] http://www.financialmail.co.za/opinion/columnists/2015/07/02/between-the-chains-rare-legal-victory-for-sasol, accessed 13 September 2015.

[35] http://www.chemweek.com/regions/western_europe/belgium/European-court-cuts-Sasol-wax-cartel-fine_62443.html, accessed 13 September 2015.

[36] http://www.csrwire.com/press_releases/14616-NGOs-to-Further-Challenge-UN-Global-Compact-to-Uphold-its-Integrity-Measures-, accessed 13 September 2015.

[37] http://www.csrwire.com/press_releases/21657-UN-Global-Compact-Office-Responds-to-NGO-Letter, accessed 13 September 2015.

An assessment of the UN Global Compact should also take into account the availability of alternatives. Does the UN Global Compact compete with similar initiatives? The short answer to this question is no, mainly for two reasons. Firstly, there is no other voluntary initiative available with the same scope and backing of a truly multilateral organisation. Secondly, participation in the UN Global Compact does not preclude participation in any other initiative. There are many localised and sector-specific corporate responsibility initiatives available – all of these should be assessed individually and can support the work of the UN Global Compact, but this falls outside the scope of this dissertation.

A slightly more nuanced answer to this question is that there is indeed competition in terms of prestige. There are egos involved in each global initiative, and the owners of different initiatives would probably like to see their own initiative acknowledged as the most important one. In this regard one should be cognisant of a level of competition between the UN Global Compact, the ISO 26000 Standard and potentially also the New Social Covenant, a more recent initiative by the World Economic Forum. These initiatives will be discussed in Chapter 7.

3.5.1 Supporters of the Compact

As a first attempt to answer the question posed about the success of the UN Global Compact, the arguments in favour of the UN Global Compact will be investigated.

Rasche and Kell (2010: 5) discuss the following distinguishing features of the UN Global Compact:

- It is a principle-based initiative, as opposed to other schemes aimed at certification (e.g. SA 8000);
- It is a leadership platform because it requires CEOs to lead the initiative at a company level;
- It is global;
- It involves both large corporations and small and medium enterprises; and
- It enjoys wide government support.

Rasche and Kell (2010) argue that the UN Global Compact emphasises the strategic and risk-related benefits of participation. On its own web site, the UN Global Compact is described as a "unique strategic platform for participants to advance their commitments to sustainability and corporate citizenship".[38] The concept of long-term value creation that can benefit both the private sector and societies at large is also highlighted.

This is an important point, and links to the discussion on normative and risk-based approaches to corporate responsibility, which is discussed in more detail in the next chapter. In its ten-year

[38] http://www.unglobalcompact.org/HowToParticipate/Business_Participation/index.html, accessed 28 October 2010.

anniversary report, the UN Global Compact emphasises this point repeatedly. In his foreword, UN Secretary-General Ban Ki-moon states that “expanding markets and advancing the economic and social well-being of people and societies can be two sides of the same coin” (United Nations Global Compact, 2010: 5). This is echoed by the UN Global Compact’s Executive Director Georg Kell in his introduction to the anniversary report: “Today, there is growing recognition from all corners … that when companies embed human rights, labour standards, environmental stewardship and anti-corruption measures throughout their organisations, it is good for both business and society” (United Nations Global Compact, 2010: 6). It is important to make the distinction between support for the *principles* of the UN Global Compact and support for the *institution* of the UN Global Compact as an effective vehicle to consolidate support for such principles.

Williams[39] (2004) argues that the UN Global Compact is potentially the most effective instrument to gain consensus on the role of business in society. He made this point at a time when there were just more than 1 000 business participants. Certainly in terms of growth in numbers the initiative has gone from strength to strength. However, quoting numbers is unreliable because they do not address quality. Williams pre-empts criticism against the UN Global Compact by making the point that the overall thrust of the UN Global Compact is “to accent the moral purpose of business” (Williams, 2004: 756). He also quotes Tester and Kell: “The Global Compact is not designed as a code of conduct. Rather it is a means to serve as a [frame] of reference to stimulate best practices and to bring about convergence around universally shared values” (Williams, 2004: 762). He concludes his article with a strong endorsement of the initiative (Williams, 2004: 772):

> *The Global Compact offers a forum under the umbrella of the United Nations with its visibility, global reach and convening power where some of the best members of civil society – non-government organizations, academic and public policy institutions, individual companies, business associations and labor representatives – can come together to discuss the changing role of business and its moral purpose. U.S. companies as well as those throughout the world are well advised to join the Global Compact and contribute to the shaping of these new expectations of business in society.*

In their 10-year assessment of the UN Global Compact, McIntosh and Waddock (2010: 1) highlight three issues:

- New technologies and continually shifting boundaries make the UN Global Compact a ‘nested network’, one network among others;

[39] Oliver Williams is a member of the board of the UN Global Compact Foundation.

- The realisation that global warming is happening and that there is a possibility of ecological meltdown increases the urgency of the initiative; and
- Since humans are inventive, creative, innovative and problem-solving creatures, they should be able to come up with solutions for the mess they created themselves.

Kell (2012: 32) reflects on the growth of the UN Global Compact and argues that four major factors contributed to the initiative's growth: the continued relevance of the initiative's underlying idea, sustained institutional leadership support, the political back-up the initiative has received from governments, and the initiative's operational viability.

In terms of the continued growth of the initiative's underlying idea, Kell (2012: 32) argues that the basic proposition of the UN Global Compact is to invite corporations "to internalize UN values and take action in support of broader UN goals for greater market sustainability". If one looks beyond the proprietary language about the values, it is clear that the idea of a values-based approach to business will support the UN goals. Given the current challenges facing the world, this idea is probably more relevant today than when the UN Global Compact was launched. Kell provides insight into the processes leading up to the famous Davos speech of Kofi Annan. Contrary to the popular belief that the response to the call for the "global compact of shared values and principles" took the UN by surprise, it is clear that a lot of planning and thinking preceded the speech. As was indicated before, possible early adopters were actually identified before the speech. There was indeed a concern from some that the call was too risky, and the fact that the call was made without a mandate from the member states of the UN General Assembly caused some initial friction (Kell, 2012, 38). It was only in 2007 that the General Assembly allowed the name UN to preface the Global Compact, signalling that it had become an official UN initiative.

Kell has high praise for Kofi Annan for providing institutional leadership. One gets a real sense of some of the internal turmoil and resistance to the initiative (Kell, 2012: 36):

> *[I]n the early years some advisors expressed their skepticism about the initiative and asked Mr. Annan to stay away from the UN Global Compact. Resistance within the UN gathered momentum, and some civil society actors expressed their hesitation about the UN's interface with multinational corporations.*

It was within this fairly aggressive environment that Annan managed to support the initiative and managed, moreover, to turn opponents into supporters.[40] Kell is also candid about the general

[40] This initial negative attitude is also alluded to in an earlier article, where Kell and Levin discuss the advantages of the network structure of the UN Global Compact. Written during the early years of the initiative, they pose the following as one of a list of critical issues still open to

problem of successors not wanting to continue with initiatives started by their predecessors, but in this regard praises Annan's successor, Ban Ki-moon, for the gracious way in which he continued to support the UN Global Compact (Kell, 2012: 37).

Kell also addresses the issue of the need for government support. Given the initial lack of legitimacy due to the fact that the UN Global Compact was launched without a mandate from the UN General Assembly, it was important to deal with this carefully. Through the leadership of Germany, a call by some governments for the introduction of intergovernmental oversight was replaced by an initiative focusing on partnerships, and with coordination provided by Switzerland an informal support group, "Friends of the UN Global Compact", was formed (Kell, 2012: 38).

The final point addressed by Kell is operational viability. He argues that the UN Global Compact was faced with a "constant experimentation of building a robust operational infrastructure" (Kell, 2012: 42). He argues that the governance structure of the UN Global Compact has to be both decentralised and flexible. According to him, there was one key question: "How do you build an enabling infrastructure for the idea to be operationalized on a large scale while ensuring accountability to a wide range of stakeholders?" (Kell, 2012: 43). The governance framework that was adopted in 2005 created six entities within a "multicentric" framework (Kell, 2012: 44). The governance of the UN Global Compact has been subjected to extensive criticism and he acknowledges that the issue of accountability "continues to remain a work in progress as the Global Compact continues to grow and face new challenges" (Kell, 2012: 44). The issue of governance of the UN Global Compact will be discussed separately later in this chapter.

3.5.2 Opponents of the Compact

Some commentators have compared the UN Global Compact to a club. They argue that it is not too difficult to get into the club, and not too difficult to stay in the club. So, as opposed to the sour grapes of those who do not qualify to get in and then criticise the club as being exclusive and elitist, some critics believe that it is too easy to get in and that the principles are too vague. As Rasche (2010: 1) points out, one "should not criticize the Compact for something it never pretended and / or intended to be". Rasche explains the need for the principles to be filled with contextualised meaning – this is an idea that resonates with the application of ISCT which will be discussed in Chapter 6.

In an extensive personal interview, Kell responded to many of the criticisms against the UN Global Compact. The transcription of the entire interview is included as Appendix G (Kell, 2013).

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question: "Will the United Nations have the courage and flexibility to interact with the real world and continue this historic experiment, or will the immense bureaucracy and those committed to the traditional division between public and private responsibility stifle the growth and innovation of the Compact?" (Kell & Levin, 2003: 174).

Kell (2013) is opposed to the idea of comparing the UN Global Compact to a club: "If you want to change the world on a larger scale, you cannot do it through a club. A club is there to praise each other."

The main criticisms against the UN Global Compact cover a broad range of issues. There are those who question the very fundamentals of globalisation, those who question the influence of business within the UN, and those who question the accountability and governance structures of the initiative itself (Williams, 2014).

The most aggressive criticism against the UN Global Compact comes from Sethi and Schepers (2013). These authors assess the UN Global Compact in terms of effectiveness and implementation, and conclude that signatories have not enhanced their CSR efforts, that the UN Global Compact has lost the public trust and support from important constituencies and is therefore not in a position to fulfil its mission. Sethi has called the UN Global Compact a "solution in search of a problem" (Sethi, 2013). Using witheringly scornful similes and metaphors that are extraordinary to come across in an academic journal, the authors argue that "[i]n its current state, the UNGC is like a thin patina of respectability that provides a temporary protective cover to a mass of tiny swirling particles. There is [a] buzzing sound but no discernible message; there is motion, but no direction; and, there is activity, but no measurable impact" (Sethi & Schepers, 2013: 207).

A closer look at the article reveals the following components:

- It presents an "analytical and evaluative" framework to assess the qualities of the UN Global Compact;
- It examines the motives for creating the UN Global Compact and compares these against the authors' assessment of the effectiveness of the initiative; and
- It presents an evaluation of the first 12 years of the existence of the UN Global Compact, and assesses whether the CSR agenda has been advanced.

The analytical framework created by Sethi and Schepers measures different initiatives against two sets of factors: the structural characteristics of the code and the internal factors, for example incentives and disincentives that would either induce or discourage compliance (Sethi & Schepers, 2013: 195).

The actual framework the authors present comprises a matrix with four quadrants, created by a horizontal axis that measures "cohesiveness among sponsoring group members and commitment to the voluntary initiative" and a vertical axis that measures – strangely – a few (arguably four) dimensions at the same time: "specificity and materiality of the voluntary code provisions and strength of governance and implementation structures".

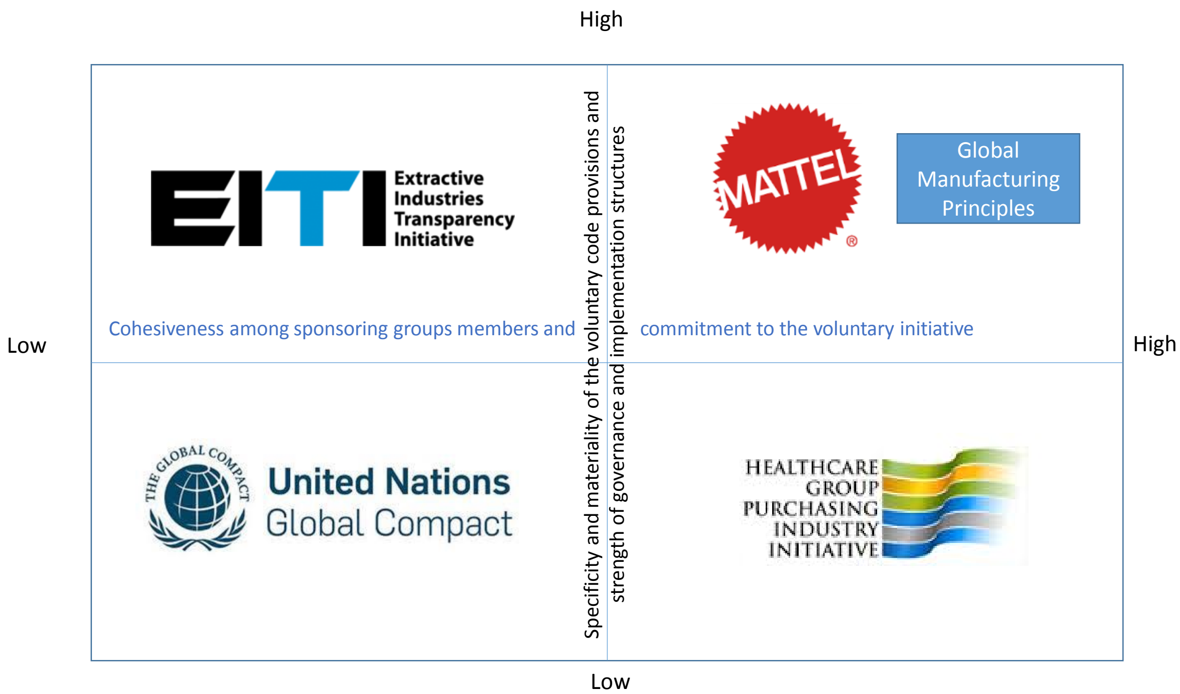

Figure 12: Schematic framework of Sethi and Schepers with selected examples

Source: Sethi & Schepers, 2013

Sector C, the ‘low/low’ quadrant within which the UN Global Compact falls, according to Sethi and Schepers (2013: 197), is described as follows:

> *The code elements and principles by necessity must be universal in character to appeal to a large numbers [sic] of diverse companies and industries. The sustainability of such a code, therefore, makes it inevitable that (a) principles are defined in very broad terms, i.e., they are mostly aspirational, and (b) the enabling requirements for meeting these rules are necessarily minimal.*

Although the authors suggest that “all types of codes are indeed relevant in their specific context, and serve important business purpose [sic] as well as issues of public concern” (Sethi & Schepers, 2013: 197), one can already sense that the UN Global Compact category is not going to receive sympathetic treatment.

On the other hand, Sethi and Schepers use Mattel’s global manufacturing principles as an example of an initiative that fits the most desirable quadrant of ‘high/high’. What is not disclosed in the article is that – for many years – Sethi was a consultant to Mattel, and assisted them in the development of the principles. In a New York Times article from 2007, the following is mentioned in this regard (Dee, 2007):

> *To spend even an hour with Sethi is to know that he could never be bought for any price. But in another way, more psychological than material, Mattel has indeed turned him from a potential critic into a public cheerleader. The monitoring program associated with the company's global manufacturing principles is the ultimate field test for Sethi. It is his own philosophy made flesh. He has a tremendous emotional stake in Mattel's being perceived as a success; and as a result, he seems almost incapable of publicly criticizing its actions.*

Sethi and Schepers (2013: 199) continue to describe the creation of the UN Global Compact as a Faustian bargain,[41] and list the following reasons why the initiative cannot – according to them – live up to the original aspirations:

- An "insular and self-entrenched governance structure" that "did not encourage accountability for actions nor transparency in external communications";
- An "inability to generate a broad basis of financial support made it beholden to the support of a small group of companies and countries, and discouraged it from undertaking meaningful action toward encouraging greater corporate implementation of UNGC principles"; and
- An inability to "use its prestige and credibility to persuade signatory companies to make systematic and meaningful efforts to enhance implementation of UNGC principles".

What follows in the authors' article is a scathing attack on the UN Global Compact's governance structure ("insular and controlled by its top management team and their supporters"), its finances ("budget suffers from lack of transparency", "corporate support is miniscule and weighted in favor of a few large donors"), its communication strategy ("making optimistic but unsubstantiated statements about progress"), its growth strategy ("has abandoned any effort to sustain its core mission of embedding the ten UNGC principles in companies' core business activities"), its diversification strategy ("a solution in search of problems" and "intended to induce corporations to become signatories of the UNGC"), its communication on progress (COP) system ("COP's [sic] do not provide sufficient or meaningful information about corporate activities pertaining to the UNGC principles" and "the paucity of information makes a mockery of the COP as the primary vehicle of company-provided information on implementing the UNGC principles and could be charitably considered as window dressing") and finally its de-listing processes which find "every possible reason to keep signatory companies from leaving the UNGC umbrella". Even the leniency displayed towards signatories from non-OECD/G20 countries is criticised as "another example of the UNGC board straining to rationalize their superficial

[41] A reference to the medieval legend where Faust sells his soul to the devil in return for worldly gains.

expectations of compliance under the rubric of empathy and compassion for poor and struggling companies" (Sethi & Schepers, 2013: 207).

It therefore comes as no surprise that the only honourable way forward for the UN Global Compact, according to Sethi and Schepers, is "to admit its failure and dissolve itself". The authors acknowledge that this is unlikely and therefore predict that the UN Global Compact will "become wider and shallower by the day until it runs out of space and depth and becomes a dry bed of sand – not good for itself and not good for anyone else" (Sethi & Schepers, 2013: 207).

3.5.2.1 Responses to Sethi and Schepers

Subsequent to the publication of the article by Sethi and Schepers (2013), there have been responses from Rasche and Waddock (2014), as well as from Williams (2014).

3.5.2.1.1 Response from Rasche and Waddock

In their article, Rasche and Waddock (2014) respond to the views of Sethi and Schepers (2013) and address three main points: the proposed framework, the historical and political context, and finally how the promise-performance gap rests on a "selective and one-sided reading of relevant sources" (Rasche & Waddock, 2014: 213).

Rasche and Waddock also point out that one of the dimensions of the framework consists of (in their view) two categories. This is a kind reading, since four categories can be identified: specificity of the code provisions, materiality of the code provisions, strength of governance and strength of implementation structures.

They further point out that the framework seems implicitly to privilege initiatives that verify compliance and argue convincingly that the "introduced taxonomy rests on the assumption that meaningful change can only be achieved through certification-based programs working on specialized issues" (Rasche & Waddock, 2014: 210). They conclude that the "framework's criteria seem explicitly designed to place the Compact into the `low/low' sector" (Rasche & Waddock, 2014: 210). Given the emotive language used by Sethi and Schepers in their discussion of the Compact, this conclusion does not seem far-fetched. In addition, they point out that the criticism implicit in the 'low/low' rating is odd, because the UN Global Compact "is criticized for something it never pretended or intended to be" (Rasche & Waddock, 2014: 210). Rache and Waddock do not discuss this, but with reference to the 'high/high' sector, it should be noted again that – as a minimum – the authors should have disclosed Sethi's involvement in the Mattel initiative.

In their discussion of the historical roots of the UN Global Compact, Rasche and Waddock (2014: 211) point out that the UN Global Compact is indeed cooperating with a multitude of UN agencies, which seems to run contrary to the claim by Sethi and Schepers that the initiative has lost the support of UN agencies. They also give an impressive list of civil society organisations that are collaborating with the UN Global Compact. They acknowledge that some NGOs reject the UN Global Compact, but point out that this does not provide evidence that there is a *general* lack of support from civil society.

Rasche and Waddock proceed to trace the historical roots and motivations for the creation of the UN Global Compact. They describe how the early attempts at interaction between the UN and the private sector were perceived to be attempts to police the behaviour of transnational corporations, and how a shift in attitude started to occur from 1994 onwards: “a shift from a reactive strategy trying to police the behaviour of businesses towards a more proactive strategy focused on the contributions of firms to development” (Rasche & Waddock, 2014: 212). With an agenda that moved from confrontation to collaboration, the scene was set for Kofi Annan to make his famous speech in Davos in 1999. They conclude their discussion of the historical roots of the UN Global Compact by stating (Rasche & Waddock, 2014: 212):

> *The initiative was formed out of the necessity to include firms more directly into the governance of global markets, particularly since the effectiveness of state-based solutions in the international policy arena remained limited. The deal underlying the initiative is not a “Faustian Bargain”, as argued by Sethi and Schepers. It is a different kind of deal – a compact between parties who recognized that collaboration is mutually beneficial and critical to their jointly-shared future success.*

Rasche (2010) also discusses the criticism that the UN Global Compact amounts to privatisation of the UN, and points out that the global agenda is so demanding that partnerships are needed, and also that the UN has been in partnership with business associations for a very long time. This argument about the need for partnerships is particularly important in terms of the MDGs, and is also reminiscent of Schwab’s position on global corporate citizenship (Schwab, 2008: 109):

> *As state power has shrunk, the sphere of influence of business has widened. Companies get involved in the health of workers, the education of employees and their children, and the pensions that sustain them in retirement. Corporations have an impact on everything from air quality to the availability of life-saving drugs. They have become integral to the survival of governments and the political stability of nations and regions. … This fundamental shift in the global power equation means that just as communities and citizens look to government for answers and leadership, so now they target corporations with both requests for help and criticism for wrongdoing.*

With regard to the "promise-performance gap" accusation of Sethi and Schepers, Rasche and Waddock refer to the annual implementation surveys and also quote Kell who openly admitted that the UN Global Compact participation numbers are "far from a critical mass, nor [have they achieved] the depth of action needed to right the course and adequately address the world's most pressing challenges" (Rasche & Waddock, 2014: 213). They argue that both quantity and quality matter when advancing the work of the UN Global Compact, and agree with Sethi and Schepers that the number of participants only cannot be regarded as a sufficient proxy measure for the impact of the Compact.[42]

Rasche and Waddock argue that it makes sense to maintain low entry barriers to maintain high growth, because they believe that "[i]f the initiative would start selecting participants, this could be misunderstood as the UN directly endorsing a certain set of companies" (Rasche & Waddock, 2014: 213). However, the alternative to low entry barriers would be high entry barriers, not selection or endorsement of participants. While high growth rates are required to take the initiative to scale, it does not mean that the entry barriers should remain low. This is a different argument from the demand for quality assurance through verification, which will be discussed below.

In an interview, Kell's response to the quantity/quality debate is as follows (Kell, 2013):

> *What you need to realise is if the initiative grows beyond a certain number, which in the case of the Compact was done years ago, you need to focus on the front-end to maintain quality, because only quality ultimately can drive quantity; but you also do not want to create a club model. Our mission is to change markets from within and we want to inspire as many as possible, and you can only lead to large-scale change if you win over a critical mass. Striking the balance between quality and quantity is a never-ending challenge.*

In response to the criticism about lack of monitoring, Rasche (2010: 1) retorts in an earlier contribution that "[t]he Compact was set up as a multi-stakeholder learning network based on dialogue and partnership between business, civil society and the UN system", and also explains how certification bodies like SA 8000 are challenged by blurred boundaries and therefore only certify single production facilities. This is a legitimate response, but reputational issues related to the low entry barriers present some of the biggest risks to the future of the Compact. Certification or accreditation cannot be the answer to this problem – if the initiative itself can maintain its legitimacy, perhaps the focus of the press and other stakeholders should rather be to pressurise companies which are guilty of what the UN Global Compact calls "systematic or egregious abuses" to step down voluntarily. The views of

[42] The issue of scale or critical mass is important but unresolved. Given that the number of business participants is still relatively small compared to the overall number of corporations in the global economy, and the fact that there is not an even geographic spread of participants (Bremer, 2008: 234), it is clear that the critical mass has not yet been achieved. However, it is argued in this study that the actual number of participants should not be a determining factor of its success.

Donaldson (2003) on this issue will be discussed later. Donaldson emphasises corporate egoism as the first rung of the ladder, the "justificatory 'no-brainer' or at least a 'small-brainer'" (Donaldson, 2003: 70). It will be argued by the writer that it is not desirable to get corporations on board with a no-brainer, but rather that the entry level requirements should be more onerous, even if this comes at the expense of greater numbers.

To conclude their response to the article by Sethi and Schepers, Rasche and Waddock point out that Sethi and Schepers refuse to accept the aspirational nature and the learning-based core purpose of the Compact; that it was not intended to compete with voluntary standards that regulate corporate behaviour; and that it provides a place where issues and ideas can be incorporated voluntarily as part of corporate practice (Rasche & Waddock, 2014: 214).

Finally, they acknowledge that improvements are needed in the following areas: the connection of existing initiatives and work streams; scaling up the participant base while at the same time improving the quality; transparency and comprehensiveness of COP reporting; and strengthening the capacity of local networks to support participant engagement; and learning and implementation (Rasche & Waddock, 2014: 214-215).

3.5.2.1.2 Williams's response

In his response, Williams (2014) takes a broader approach and responds individually to three different sets of critics: those who oppose economic globalisation, those who fear that business may become too influential within the UN, and those who believe that the lack of certification processes within the Global Compact will result in 'bluewash'.

Williams points out that "there is a convergence in the vision of the globalization critics and the Compact. Both are trying to retrieve the notion that there is a moral purpose of business and not only in wealth creation but also in its distribution" (Williams, 2014: 245). He frames the UN Global Compact as "an attempt to create the moral underpinnings of the global economy that were assumed by Adam Smith for a national economy" (Williams, 2014: 245), and points out that, according to Adam Smith, the self-interest of business people would be shaped by moral forces to prevent it from degenerating into greed and selfishness: "[t]he argument made by Global Compact officials is that unless the moral purpose of business is retrieved, economic globalization is doomed to failure. This is the basic business case for the UNGC and its role in the creation of norms" (Williams, 2014: 246).

Williams also discusses the difference between hard law and soft law, within the context of opponents of globalisation who would like to see corporate responsibility mandated by a worldwide legal framework (Williams, 2014: 246):

> *A significant value of the UN Global Compact is to highlight the normative dimension, the universal values of the UN Global Compact, and bring them into the strategic plan of a business. Once we have a firm consensus on the soft law required for the global business community, then the possibility of evolving into hard law becomes a reality. Whether hard law is better than soft law in the area of CSR is, of course, a matter of great debate and that debate will be part of any future agenda.*

With reference to the legal framework, the contribution of Lynn Stout, professor of corporate and business law at the Cornell Law School, has been significant. Stout (2012: location 82) argues that United States corporate law does not require corporations to maximise either share price or shareholder wealth:

> *Put bluntly, conventional shareholder value thinking is a mistake for most firms – and a big mistake at that. Shareholder value thinking causes corporate managers to focus myopically on short-term earnings reports at the expense of long-term performance; discourages investment and innovation; harms employees, customers, and communities; and causes companies to indulge in reckless, sociopathic, and socially irresponsible behaviors. It threatens the welfare of consumers, employees, communities and investors alike.*

Stout (2012: location 391) argues that there is "no solid legal support for the claim that directors and executives in the U.S. public corporations have an enforceable legal duty to maximize shareholder wealth." She partially bases this argument on the application of the business judgement rule, which holds that courts will not second-guess the decisions made by boards in the best interest of the company, even if those decisions seem to harm shareholder value.

With regard to the fear of critics from within the UN that business will become too powerful, Williams points out that this is an outdated criticism. Similar to the examples used by Rasche and Waddock, he traces the historical developments within the UN leading up to the 2007 decision by the UN General Assembly to allow the Global Compact officially to be called the UN Global Compact, and mentions the confirmation from Kell that many of the early sceptics are now strong supporters of the Compact (Williams, 2014: 247).

With regard to the third set of critics, as represented by Sethi and Schepers, Williams points out that this criticism misses the point about the mission of the UN Global Compact. Similar to the argument of Rasche and Waddock, he makes it clear that one cannot criticise an initiative for omitting to do something that is not part of its mission statement. It is possible to try to achieve convergence around universal values without providing extensive monitoring and verification. This will result in a certain number of free riders, but that is a conscious choice made by the UN Global Compact.

3.6 Governance structure

The governance structures and integrity measures of the UN Global Compact are discussed in detail by Wynhoven and Stausberg (2010). They describe the review process that was initiated by the secretary-general and conducted by Georg Kell and John Ruggie during 2004 and 2005. The new governance framework was adopted by the secretary-general in August 2005 with immediate implementation (Wynhoven & Stausberg, 2010: 254). According to Wynhoven and Stausberg, the governance functions of the UN Global Compact are now shared by seven entities, each with different tasks: Global Compact Leaders Summit, Global Compact Board, Local Networks, Annual Local Networks Forum, Global Compact Office, Inter-Agency Team and Global Compact Donor Group. This list mirrors the description of the governance structure provided by the UN Global Compact itself[43] and the descriptions of each entity provided by Wynhoven and Stausberg (2010: 254-258) are mostly rearranged versions of the information included on the UN Global Compact website itself.

In a corporate governance update published by the UN Global Compact (2008) the reviewed governance structure is discussed. The different entities are described here briefly:

- The board is chaired by the UN secretary-general. Board members are appointed by the UN secretary-general and serve in their personal capacity. Board working groups have been created. In December 2014, there were 34 board members. It is important to note that the Global Compact board is not a UN entity.
- The Global Compact Office is described as the "hub providing support for the other components". There is no direct reporting line between the Global Compact Office and the board, because non-UN entities cannot supervise UN entities.
- The Interagency Team is part of the Global Compact's linkages within the UN. Dedicated staff members in various UN organisations manage the UN Global Compact within their respective organisations. No information is provided on the reporting lines of this team.
- Local Networks mirror the role of the Global Compact Office at the local level.
- The Local Networks Forum is the annual meeting for the local network managers.
- The Leaders Summit is a triennial gathering of participants at the executive level.
- The Foundation for the Global Compact is listed, but it is emphasised that the Foundation is not part of the governance structure. The Foundation is a separate and private, not-for-profit entity

[43] http://www.unglobalcompact.org/AboutTheGC/stages_of_development.html, accessed 16 August 2013.

under New York State Law with the sole purpose of mobilising funding to support the growth of the UN Global Compact. The Foundation has its own, three-person board.

In a 2014 update on governance issues, a new structure (graphically depicted in Figure 13) is presented by the UN Global Compact.

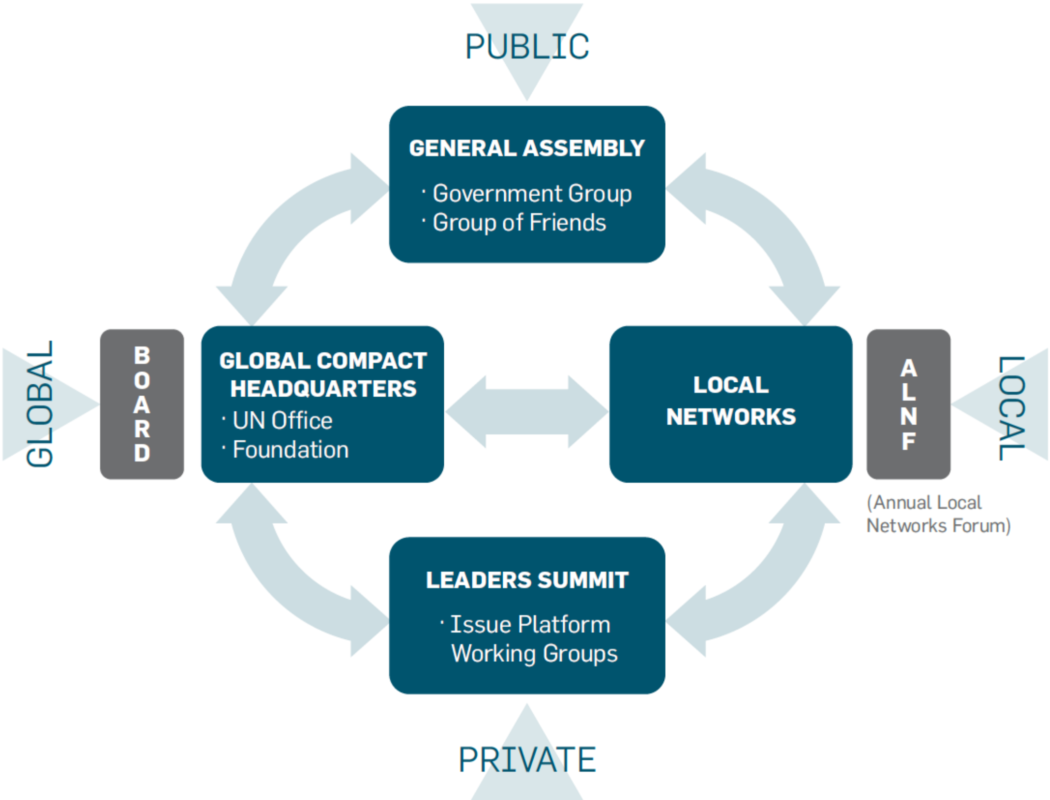

Figure 13: UN Global Compact governance structure

Source: UN Global Compact 2008b

This is the first time that the word "headquarters" is used. To further complicate matters, the document also mentions further refinements to the governance structure by introducing the Global Compact Government Group and Friends of the Global Compact (United Nations Global Compact, 2014). It is mentioned that the government group meets to review budgets and progress, but no indication is given of how this relates to the activities of the board.

The governance structure of the UN Global Compact seems to be overly complicated. Unlike a listed company, it does not have a clearly defined set of shareholders that can appoint and dismiss the board of directors. The UN – through the General Assembly – is the owner of the UN Global Compact, but at the same time it is committed to ensuring that the governance structures reflect the multi-stakeholder nature of the initiative. This is perfectly acceptable, but the governance structure should be simplified.

The nature of the UN Global Compact is perhaps closer to that of a not-for-profit state-owned enterprise, where there is a single owner and no profit motive.

There is a need for a board of directors and a clear constitution, which should describe when and how the board is appointed, what its terms are, how re-election or re-appointment would work, etc. There is no problem if the UN reserves the right to make these appointments, but in the spirit of a multi-stakeholder initiative it might want to give certain representative bodies from business, governments and civil society the right to elect their own representatives, or at least make the appointments following extensive engagement. The main requirement is a transparent system that is easy to understand. Currently that is not the case. It is also necessary that the board of a UN entity should be part of the UN.

Furthermore, it is not clear why gatherings (the Local Network Forum and the Leaders Summit) should be mentioned as specific components of the governance structure. These are important events with an impact on governance decisions, but they do not belong in a governance structure.

Although the governance structure of the UN Global Compact is not a main focus area of this dissertation, it is recommended that the following should be considered to simplify the structure while ensuring continued accountability:

- Incorporate the board as an official UN entity;
- Reduce the size of the board;
- Appoint more executive directors;
- Meet at least four times per year;
- Position the local networks as subsidiaries – this will ensure accountability but allow flexibility;
- Remove the Local Networks Forum and the Leaders Summit from the governance structure; and
- Increase the size of the UN Global Compact Foundation Board.

A possible simplified structure of the UN Global Compact is set out in Figure 14.

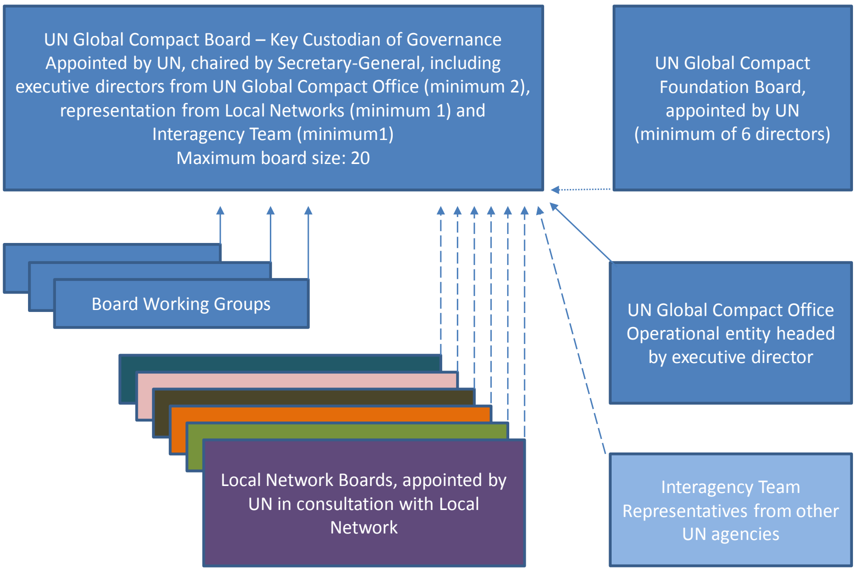

Figure 14: Possible simplified governance structure of the UN Global Compact

The proposed structure will have the following benefits:

- The main board will be smaller and easier to manage.
- Four meetings per year would allow more active involvement, and will be in line with the general board meeting cycle of most corporations.
- Much of the work can be done through the board working groups, the equivalent of board committees.
- The local network boards will have powers and responsibilities similar to subsidiaries. There can therefore be a local focus and proper fiduciary duties within a structure that is still firmly positioned within the network, but accountable to the UN. With 102 local networks operating in 2014, the introduction of a regional structure could perhaps be investigated.
- The UN Global Compact Foundation board will be increased to a size that will allow greater diversity and representation.
- Sufficient collaboration with the UN system as a whole will be ensured.

Given the strong procedural requirements of the UN, it might not be possible to incorporate the board as a UN entity, in which case the issue of oversight between the board and the UN Global Compact Office would have to be addressed in another way. Within the constraints of the UN system, it is suggested that a formal relationship agreement between these two entities be drawn up.

Georg Kell, one of the key architects and executive director of the UN Global Compact since its launch in 2000, will step down in 2015. He has been synonymous with the institution since its inception and it will be a challenge for his successor to ensure continuity, respect the legacy, and lead according to his or her own leadership style at the same time. Overhauling the initiative's governance system may be a good place to start.

3.7 Conclusion

The UN Global Compact is the world's largest voluntary corporate responsibility initiative. That is a fact. And, despite the wishes of Sethi and Schepers, it is not going to close shop. That is also a fact. What also seems probable is that the initiative will grow rapidly over the next number of years.

This chapter introduced the UN Global Compact and discussed its current status. It also outlined the major arguments in favour of and opposing the initiative, and assessed its current governance structure. Systemic criticism against globalisation cannot be addressed in detail when assessing the UN Global Compact, because it comes from a paradigm fundamentally opposed to what the initiative tries to achieve. It was pointed out that the criticism in terms of a lack of verification and other internal controls is not valid because that was never part of the design of the initiative. Questions about the governance of the initiative seem to be valid. Based on the assessment here, the flaws should not be ascribed to any conspiracy theory, but probably on a combination of remnants from the UN bureaucracy and a lack of focus on international best practice in terms of private sector governance. That is much easier to fix than undoing a deal with the Devil.

Implicit in a focus on human rights, labour standards, environment and anti-corruption are fundamental ethical values such as respect, fairness, stewardship and transparency. Discussions about the UN Global Compact should therefore be seen as part of a broader conversation that addresses the moral purpose of business. That is the topic of Chapter 4.

Chapter 4: The moral purpose of business

4.1 Introduction

The previous chapter introduced the UN Global Compact and presented various conflicting views on the initiative. Disagreement sometimes centres on the initiative itself and differing views exist about the governance structures or implementation strategy, but more fundamental questions are also raised about the role of business in society: Do corporations[44] have moral responsibilities? Is there a moral purpose to business?

This dissertation argues that the answer to the latter two questions is yes and in this chapter an argument will be presented to support this view. Firstly, the debate about the business case versus the moral case for corporate responsibility activities will be introduced. Secondly, normative theories about business ethics will be discussed, with particular emphasis on social contract theory and stakeholder theory.

4.2 The business case versus the moral case

In a globalised world the corporation becomes an important and powerful player. Multinational companies often wield more power than the governments of developing countries where they have operations. Williams (2008: 431) argues that there is an emerging new role for the corporation within society, and proposes the UN Global Compact as a useful discussion forum where this role can be investigated. According to him, there is growing consensus that multinational corporations have a moral obligation as corporate citizens to assist the poor, but that the extent of these obligations is not clear. This is where the UN Global Compact offers a "forum under the umbrella of the United Nations" where this changing role of business and its moral purpose can be discussed (Williams, 2008: 435).

The power of corporations can be understood at various levels. Carroll and Buchholtz (2006: 17-18) discuss Epstein's view that there are four main levels, which are closely aligned with discussions about levels of business ethics, as indicated in brackets: macro (the corporate system), intermediate (industry initiatives), micro (individual firms) and individual (CEOs and other executives). Power is also exerted in various ways, including in the economic, social, cultural, individual, technological, environmental and political spheres (Carroll & Buchholtz, 2006: 18). The way in which this power is exerted introduces the responsibility element: "whenever power and responsibility become

[44] Although the focus of this study is primarily on private sector corporations, much of the content is also applicable to other organisations, including state-owned organisations, non-profit organisations and even public sector institutions. The term corporation is preferred, but sometimes firm, company and organisation will also be used.

substantially out of balance, forces will be generated to bring them in closer balance" (Carroll & Buchholtz, 2006: 19).

Very few, if any, corporations would today still adhere to the views expressed by Milton Friedman in his famous article that was originally published in the *New York Times Magazine* in 1970 (Friedman, 2002). In this article, Friedman argues that the only social responsibility of business is to increase its profits (Friedman, 2002: 33):

> *[B]usinessmen [who] believe that they are defending free enterprise when they declaim that business is not concerned `merely' with profit but also with promoting desirable `social' ends; that business has a `social conscience' and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchword of the contemporary crop of reformers … are … preaching pure and unadulterated socialism.*

Friedman's views were echoed by the philosopher John Ladd, quoted by Goodpaster and Matthews (1982: 133):

> *We cannot and must not expect formal organizations, or their representatives acting in their official capacities, to be honest, courageous, considerate, sympathetic, or to have any kind of moral integrity. Such concepts are not in the vocabulary, so to speak, of the organizational language game.*

However, implicit in Friedman's argument is the view that corporations *could* engage in some of these activities, as long as they do it because they believe that it will increase their profits and not because of a moral obligation. Consider the following less familiar paragraph from the very same article (Friedman, 2002: 36):

> *It may well be in the long run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees, it may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects.*

This type of argument resonates very strongly with the current risk-based approach to corporate responsibility, and also with the creating shared value (CSV) concept introduced by Porter and Kramer (2011), discussed below. In terms of a risk-based approach, corporations should take their social responsibilities seriously because it will assist them to manage risks and exploit opportunities, and will therefore be in their own interest.

Following a fairly scathing review of corporate social responsibility by *The Economist* (2005), a follow-up report was published in 2008 by *The Economist*, where it refers to the fact that the 2005 report "acknowledge[d], with regret, that the CSR movement had won the battle of ideas" (*The Economist*, 2008: 4). Whether this regret had anything to do with Friedman's views of CSR as unadulterated socialism is not clear, but the 2008 report – as indicated by the title of "Just Good Business" – acknowledges, with no regret this time, that "clearly CSR has arrived" (*The Economist*, 2008: 4). It then proceeds to explain how companies should view this development (*The Economist*, 2008: 14):

> *One way of looking at CSR is that it is part of what businesses need to do to keep up with (or, if possible, stay slightly ahead of) society's fast-changing expectations. It is an aspect of taking care of a company's reputation, managing its risks and gaining a competitive edge. This is what good managers ought to do anyway.*

But there is a twist in the tail. Those who support corporate responsibility from a moral point of view increasingly support the "just good business" approach from an *operational* point of view. In other words, by integrating corporate responsibility into the strategic elements of the corporation instead of having a marginalised CSR department with a separate budget, the positive impact on stakeholders can be increased. This raises the question of intentionality – does it count from a moral point of view if your action is not based on a sense of moral duty? Immanuel Kant would say no, but many beneficiaries of corporate responsibility will simply not care.

More recently Porter and Kramer (2011) introduced the "big idea" of creating shared value (CSV) – connecting societal and economic progress, for example through reconceiving products and markets and redefining productivity in the value chain (Porter & Kramer, 2011):

> *The concept of shared value … recognizes that societal needs, not just conventional economic needs, define markets. It also recognizes that social harms or weaknesses frequently create* ***internal*** *costs for firms—such as wasted energy or raw materials, costly accidents, and the need for remedial training to compensate for inadequacies in education. And addressing societal harms and constraints does not necessarily raise costs for firms, because they can innovate through using new technologies, operating methods, and management approaches—and as a result, increase their productivity and expand their markets.*

There is no doubt that this contribution of Porter and Kramer has been hugely influential in the corporate world (the main audience for the *Harvard Business Review*, in which the article was published), and to some extent also in the academic world. However, many questions have been asked about the originality of the contribution. It is interesting to consider – side by side in Table 11 – the views of Porter and Kramer, Friedman, and Ruggie:

Table 11: Comparison between the views of Porter and Kramer, Friedman, and Ruggie

Porter & Kramer	Friedman	Ruggie
"It is not philanthropy but self-interested behavior to create economic value by creating societal value. If all companies individually pursued shared value connected to their particular businesses, society's overall interests would be served. And companies would acquire legitimacy in the eyes of the communities in which they operated." (Porter & Kramer, 2011: 17)	"It may well be in the long run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government." (Friedman, 2002: 36)	"Companies may undertake additional human rights commitments for philanthropic reasons, or to protect and promote their brand, or to develop new business opportunities." (United Nations, 2010: 14)

A very hard-hitting critique of CSV was published in the *California Management Review* (Crane, Palazzo, Spence & Matten, 2014). In summary, the authors describe the following shortcomings of CSV: "[I]t is unoriginal, it ignores the tensions between social and economic goals, it is naïve about the challenges of business compliance, and it is based on a shallow conception of the role of the corporation in society" (Crane *et al*., 2014: 131). Ultimately, the authors argue, CSV is "a reactionary rather than transformational response to the crisis of capitalism" (Crane *et al*., 2014: 131).

They do acknowledge the following strengths of CSV: it appeals to practitioners and scholars, it elevates social goals to a strategic level, it articulates a clear role for governments in responsible behaviour, and it adds rigour to the concept of "conscious capitalism" (Crane *et al*., 2014: 132).

In their response to the article, Porter and Kramer state that they find it puzzling that the authors can acknowledge the wide and positive reception of the article, yet claim that it does not say anything new. They find this puzzling, "especially given the substantial changes in behaviour in corporations around the world, both large and small, that have come as a direct result of the article. Clearly something about this article has moved companies to embrace the idea and act in ways that previous literature has not" (Porter & Kramer, 2014: 149).

It is hard to believe that Porter and Kramer can make the error of logic of equating the "wide and positive reception" of the article with the novelty of the content. It is almost akin to stating that E.L.

James must be a good author because *Fifty Shades of Grey* sold more than a 100 million copies worldwide. Applying the same logic, surely James's book has also moved people to act in ways that previous literature has not.

Porter and Kramer respond briefly to some of the criticism in the article, using the defence that the *Harvard Business Review* does not allow footnotes and countering with the words "mistaken" and "utterly misses our point". Then the gloves come off: "It is precisely the wishful thinking of writers like Mr. Crane that has led to so many corporate responsibility and sustainability arguments falling on deaf corporate ears, by insisting that profit-seeing (sic) enterprises need to abandon their core purpose for the sake of the greater good" (Porter & Kramer, 2014: 150).

In their response, Crane and his co-authors accuse Porter and Kramer of presenting a "wilful caricature" of their "fairly nuanced position" and manage to get in the final stab: "Where the wishful thinking really comes in though is in Porter and Kramer's naïve belief that the role of business in addressing the world's major social problems can, or should, only be addressed through the lens of corporate self-interest" (Crane *et al*., 2014: 152).

Waddock (2013: 43) places an emphasis on the limitations of the business case:

> *As business leaders tackle sustainability, one thing is important to understand: not every action that needs to be taken to create a more sustainable world has what is commonly called a "business case". Some things simply need to be done as part of a precautionary approach, or because they are the right thing to do.*

Of course, both sides have a point. It is impossible to deny the 'Porter effect', even if one does not like it. Anything with Porter's name attached to it is bound to have a more immediate impact in the corporate world. Secondly, Porter does manage to address a corporate audience in non-academic language, which is essential if one wants to achieve traction and initiate action in the corporate world. Zollo and Mele (2013) put this eloquently. After having acknowledged that "Porter and Kramer's claim to novelty might be relatively weak", they go on to state the following: "the fact that they could achieve with that one article what scores of academics failed to achieve in the course of decades of work goes entirely to their merit, and rings painful notes to the capacity of management scholars to influence practice with their research, teaching and collective 'voice' in the core debates in our society" (Zollo & Mele, 2013: 19-20).

Kell also welcomes the contribution in very pragmatic terms (Kell, 2013):

> *I am personally very delighted that Porter came out with this work because it had an impact on the US where the silly ideological debate between shareholder and stakeholder dominated the public domain. And the shared value notion helped to overcome this and put it in the right direction. … And if it takes a Harvard professor to mainstream the concept – great! But it is certainly not new. But it is most welcome.*

At the same time, the critique of Crane *et al.* (2014) is valid. However, a corporate audience does not concern itself with purported lack of originality and CEOs do not read footnotes. From a purely pragmatic point of view, if it is Porter's CSV that can get them to do certain things rather than strategic CSR, does it really matter?

There *is* a part that matters. The lack of a normative foundation in CSV brings one back to the business case versus the moral case debate. The 'enlightened self-interest' approach is a problematic one because it only works up to a point.

There is always the realisation that from time to time a corporation has to make decisions that will conflict with either its own self-interest or those of its stakeholders. It is easy to justify why bribery is wrong (even if you win the contract, you might go to jail) or why it is good to invest huge amounts of money in environmental technology not required by law (it will improve reputation and ultimately you will save money). It is not so easy if you have to decide whether to retrench employees, close plants or pay wages that do not conform to trade union demands.

This point is articulated eloquently by Crane *et al.* (2014: 136) in their critique of CSV: "While seeking win-win opportunities is clearly important, this does not provide guidance for the many situations where social and economic outcomes will not be aligned for all stakeholders." [45]

Kaptein and Wempe (2002) also grapple with this issue. They refer to the "field of tension between the corporate interest, the general interest, and the interests of individual stakeholders" (Kaptein & Wempe, 2002: 2).

This question will be raised again in Chapter 7, when the regulation of corporate responsibility is discussed. It also relates to what Button (2008: 16) calls "the paradox of civic virtue for liberal political societies". Essentially he asks whether a liberal society can expect the state and its institutions to promote and enforce the values that make the existence of society possible, while at the same time one of the values would be to limit the coercive powers of government.[46]

[45] For additional commentary on the moral case versus the business case, see Malan (2013a).

[46] This relates to the response by Donaldson and Dunfee (2000b: 484) to accusations that their theory of Integrative Social Contracts Theory (ISCT), which will be discussed extensively later, is coercively democratic because it makes submission to "majoritarian moral consensus" obligatory.

There seems to be a perceived correlation between the moral case and philanthropy, and between the business case and strategic CSR. However, there is a need to decouple the motivation for specific behaviour from the behaviour itself. It is becoming increasingly clear that the most effective way for corporations to respond to societal expectations is to integrate these activities into their day-to-day activities, and not to manage these as something separate or peripheral. But doing it in a particular way has nothing to do with the motivation for doing it.

4.3 Responsibility

It is important, before proceeding, to investigate the concept of responsibility. Consider the following statements about the well-known case of BP and the 2010 Deepwater Horizon oil spill in the Gulf of Mexico:

- BP was responsible for the oil spill;
- The responsible reaction would have been to communicate honestly to all BP’s stakeholders from the very beginning;
- BP’s response to accusations of irresponsible behaviour was inadequate; and
- Tony Howard, as the CEO of BP, had to take ultimate responsibility for the oil spill.

These statements illustrate the different uses of the word ‘responsibility’. Goodpaster and Matthews (1982: 133) highlight three different meanings of responsibility: to indicate that someone is to blame, to indicate that something has to be done, and finally to indicate that some form of trustworthiness can be expected. It is in this last sense that the moral responsibilities of corporations are addressed, and also where the link between individual actions and corporate actions are clearly illustrated. Responding to Ladd’s position (quoted earlier on page 63), Goodpaster and Matthews (1982: 133) clearly state: “The language of ethics does have a place in the vocabulary of an organization …. Organizational agents such as corporations should be no more and no less morally responsible (rational, self-interested, altruistic) than ordinary persons”.

Goodpaster and Matthews (1982: 135) argue further that corporations that monitor practices such as employment, health and safety, and environmental performance show the same rationality and respect that morally responsible individuals do. We can therefore attribute actions, strategies and also moral responsibilities to corporations just as we can to individuals. Goodpaster and Matthews (1982: 136) illustrate this point with a series of examples that remain as relevant today as they were when they were written in the early 1980s: “Whether the issue be the health effects of sugared cereal or cigarettes, the safety of tires or tampons, civil liberties in the corporation or the community, an organization reveals its character as surely as a person does”.

The position of Goodpaster and Matthews (1982), that an organisation reveals its character in the same way that an individual does, provides a common sense approach to business ethics and corporate responsibility that remains attractive today to practitioners and lawmakers, i.e. those who do not necessarily have an interest in a theoretical grounding of moral responsibility. It is this approach, as well as the experiences – both good and bad, put particularly the bad, of the impact that corporations can have on society – that has resulted in what Williams refers to as the growing consensus about the moral obligations and the emerging new role for the corporation in society (Williams, 2008: 435). This view is also in line with the traditional division of individual and company levels of business ethics that is often used in discussions about business ethics (together with industry and systemic levels). The individual and company levels are intertwined with each other, with collective individual behaviour (especially facilitated by leadership) determining the ethical behaviour at the company level.

According to Enderle (2006: 111), responsibility involves three components: firstly, the subject of responsibility (who is responsible?); secondly, the content of responsibility (for what is one responsible?); and, thirdly, the authority of responsibility (to whom is one responsible?).

Kaptein and Wempe (2002) distinguish between amoral, functional and autonomy models. While the amoral model does not acknowledge corporate moral responsibility as a meaningful concept (in line with Friedman's views), the functional model acknowledges an "organised character of actions", but this is reduced to the individual responsibility of employees. They argue in favour of the autonomy model in terms of which the "corporation can be conceived as an independent moral unit" (Kaptein & Wempe, 2002: 107) or a social entity "separate from the individuals who represent the company" (Kaptein & Wempe, 2002: 110). They discuss a number of different variations of the autonomy model. This includes the projection approach of Goodpaster and Matthews (because there are similarities between corporations and individuals we can project moral autonomy onto the corporation) and the secondary moral actor theory of Werhane and Spit (because management comprises moral players, the corporation can be judged as a secondary moral actor). Kaptein and Wempe (2002: 125) propose an integrated corporate moral practices theory: "Corporations are moral entities because they consist of independent practices that can be subjected to moral evaluation." This is also in line with the position of Enderle (2014: 172) who argues that corporations can be held morally responsible for their acts because, as collective entities, they act with intention. This view is also supported by the generally accepted legal position that corporations are persons, and that therefore they have both rights and responsibilities. The famous United States Supreme Court case from 1886 (*Santa Clara County versus*

Southern Pacific Railroad Company[47]) is often used as an example in this regard, where the judge declared that corporations are persons and therefore entitled to the same constitutional protection as persons. More recently, judgements in a few cases in the United States reconfirmed this position. In 2010, it was ruled in *Citizens United versus Federal Election Commission*[48] that the government could not restrict political spending by corporations, and in 2014 it was ruled in *Burwell, Secretary of Health and Human Services versus Hobby Lobby Stores*[49] that a corporation could choose not to make contraception available to its employees due to religious objections.

Hsieh has examined the question about the responsibility of multinational corporations to provide aid to persons in developing countries – this is specifically relevant with regards to discussions about the UN Global Compact and the Millennium Development Goals, because so many signatories to the UN Global Compact are multinational corporations with operations in developing economies. Hsieh (2009b: 100) uses the Rawlsian concept of justice to argue why such a responsibility might exist in some cases. Drawing on Rawls's distinction between obligations (arising from voluntary acts) and natural duties (these apply regardless of voluntary acts and the most important one according to Rawls is to support and further just institutions), Hsieh (2009b: 101) illustrates how this natural duty grounds the responsibility of business organisations to provide assistance, to help bring about conditions of justice in countries where these conditions do not exist, and to make a contribution to reform legal and political institutions.

In an earlier contribution, Hsieh (2004) discusses the duty of assistance within the context of the principles of the UN Global Compact. Using the same argument of Rawlsian justice, he argues that there are conditions under which multinational corporations (he calls them transnational corporations) have obligations to fulfil a "limited duty of assistance" toward those living in developing economies (Hsieh, 2004: 643). Hsieh is particularly interested in positive obligations. He argues that there is common agreement that corporations should not engage in harmful activities (this is in line with Ruggie's position outlined earlier). However, this is not so clear for positive obligations, for example to provide certain benefits and services in developing countries, especially when those benefits and services are commonly believed to be the responsibilities of governments. He uses the language employed by Rawls in the *Law of Peoples*, by referring to well-ordered societies and burdened societies. Well-ordered societies are described as non-aggressive, with secure human rights for all members, a system of law that is able to impose duties and obligations, and where those who

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[47] https://supreme.justia.com/cases/federal/us/118/394/, accessed 15 September 2015.

[48] https://www.law.cornell.edu/supct/html/08-205.ZS.html, accesed 15 September 2015.

[49] http://www.huffingtonpost.com/adam-winkler/corporations-are-people-a_b_5543833.html, accessed 15 September 2015.

administer the legal system understand the law to be guided by a common good idea of justice (Hsieh, 2004: 646). Burdened societies are described by Rawls, quoted by Hsieh, as those whose "historical, social and economic circumstances make their achieving a well-ordered regime, whether liberal or decent, difficult if not impossible" (Hsieh, 2004: 646). Under these circumstances, according to Rawls, well-ordered societies have a duty of assistance to burdened societies.

Hsieh would like to find out whether this duty of assistance can be extended to multinational corporations. Using the UN Global Compact principles (nine at the time of his writing), he argues that the UN Global Compact attributes obligations to corporations, similar to what Rawls attributed to governments. To give content to these obligations, Hsieh introduces three principles: the principle of assistance, the principle of limited scope and the principle of accountability.

According to the principle of assistance, where corporations benefit directly from the burdensome conditions in which they operate, they have a duty of assistance (Hsieh, 2004: 650). According to the principle of limited scope, they cannot be expected to contribute more than the amount by which they directly benefit (Hsieh, 2004: 651). According to the principle of accountability, corporations are obliged to assist with mechanisms through which those affected by their activities are able to contest corporate decisions (Hsieh, 2004: 658).

In a later article, Hsieh (2009b) responds to the issue of assistance from another angle. He discusses Dunfee's view that managers are morally permitted, and even at times required, to use corporate resources to alleviate human misery, even if this comes at the expense of shareholders. This question is relevant because quite often there is a tension between the intuition that such assistance would be the right thing to do, and acknowledging at the same time that shareholders have a special claim over corporate resources. Hsieh quotes Scanlon, who formulated the Rescue Principle: "[I]f you are presented with a situation in which you can prevent something very bad from happening, or alleviate someone's dire plight, by making only a slight (or even moderate) sacrifice, then it would be wrong not to do so" (Hsieh, 2009b: 556). Dunfee's argument is contained in four guiding principles (Hsieh, 2009b: 555):

1. There is a presumption that all corporate actions must be aimed at maximising shareholder wealth;
2. Managers must respond to and anticipate existing and changing marketplace morality that might have a negative impact on shareholder wealth;
3. The presumption in principle one can be rebutted if clear and convincing evidence exists that the marketplace morality relevant to the firm would justify a decision which will not maximise shareholder wealth directly; and

4. Managers must act consistently with universal norms (Dunfee uses the term "hypernorms" which will be discussed as part of ISCT).

Hsieh distinguishes this approach from stakeholder theory and corporate citizenship theory, because of the prominence that is still given to the shareholders (Hsieh, 2009: 559):

> *Shareholder interests are not simply accorded more weight relative to the interests of other parties. Rather, their interests are best understood as carrying a kind of lexical priority that can be overridden by the interests of other parties only in specific circumstances, e.g., the need for rescue in the face of a catastrophe.*

In terms of the reception of such assistance and the perceived duty to provide assistance, Leisinger (2007) uses the analogy of "felt" and "measurable" temperatures, and makes the same distinction with reference to corporate responsibility. "Measurable" corporate responsibility is expressed by what is actually delivered, and "felt" corporate responsibility assesses what is delivered against what is expected (Leisinger, 2007: 6).

Smurthwaite (2008) provides a comprehensive overview of debates about the moral purpose of the corporation, and summarises the general trends and agreements in the relevant literature. She focuses on the nature of the corporation, the issue of corporate moral agency, as well the purpose and role of the corporation. The following list provides a very brief summary of her main findings:

- In terms of the nature of the corporation, it is something that exists in law, has a human element and does not exist in a vacuum (Smurthwaite, 2008: 19);
- There are three main approaches to corporate moral agency: firstly, that corporations do not have any moral responsibilities, secondly that there is moral agency only insofar as this resides in the individuals who comprise the organisation, and thirdly that the corporation itself is a moral agent (Smurthwaite, 2008: 19-24); and
- In terms of the purpose of the corporation, the two basic approaches are the classical liberal economic paradigm (the view that the corporation only has to make a profit) and the view that there is a broader purpose to the corporation, which includes corporate citizenship, a virtue ethics approach, corporate social responsibility as well as social thought of the Catholic and other churches. These approaches suggest that the broader purpose of the corporation is not only to make a profit, but also to develop individuals and serve the common good, be a good citizen, contribute to the community as a whole and be socially responsible (Smurthwaite, 2008: 24-29).

One of the reasons why there is substantial conceptual confusion in this area is because the fields of business ethics and corporate responsibility are not only multidisciplinary but also straddle the divide between theory and practice. In his review of *Ties That Bind* by Donaldson and Dunfee (1999), John Boatright (2000: 452) makes this point rather eloquently: "How can any theory of ethics that is rigorous enough to pass muster with picky philosophers possibly give guidance to busy, hardheaded business managers?" Yet this remains one of the most productive challenges on both sides – for academics to present their thinking in more accessible ways and for business managers and executives to understand that there has to be more substance to their strategies than spreadsheets and PowerPoint presentations.

With reference to Smurthwaite's overview, the writer supports the position that corporations have moral responsibilities and that their purpose should therefore be far broader than making profits, i.e. that they should act as responsible corporate citizens.

To conclude this section, the position that corporations have moral responsibilities is restated. At the very least, this is supported by a growing consensus within all sectors of society, including the business community itself. Although it is important to distinguish conceptually between moral and social responsibility, the way in which moral responsibility applies within a corporate environment is intrinsically linked to social responsibilities, because corporations are part of the society within which they exist.

If there is agreement on the existence of these moral responsibilities and their basic social application, this does not necessarily help people to understand where they come from. This is the focus of normative theory and will be discussed next.

4.4 Normative theories

Normative theory is concerned with ethical behaviour, and the distinction between right and wrong. Parfit (2011: 150) discusses the "ordinary" sense of the word "wrong", used in a moral way as opposed to the non-moral use, for example when someone gives the wrong answer to a question. According to him the "ordinary" sense of wrong is most plausible when we consider the acts of people who know all the morally relevant facts, but he then makes an additional distinction between wrong in the fact-relative sense (when something would be wrong if we knew all the morally relevant facts), the belief-relative sense (when something would be wrong if our beliefs about the facts were true) and wrong in the evidence-relative sense (if we believed, correctly, that the available evidence gives us decisive reasons to believe something would be wrong) (Parfit, 2011: 151).

In normative theory a distinction is made between descriptive ethics (describing something as it is, e.g. an attitude or behaviour), and prescriptive ethics (prescribing how something ought to be). Different normative theories use different methodologies and can often come up with different solutions to the same ethical problem. The naturalistic fallacy was described briefly in the introduction. Simply because something *is* the way it is, does not mean that therefore it *ought* to be the way it is. Ethical positions must be justified, based on a specific theory. Donaldson discusses the "open question argument" which was framed by the philosopher G.E. Moore in the early 20th century. According to this argument, any state of affairs in the world is logically subject to the open question: "Is it good?" (Donaldson, 2012: 259).

Three of the most popular and well-known normative theories are consequentialism, where ethical decisions are made based on an assessment of the likely consequences of an action; deontology, where decisions are made based on rights and duties; and virtue ethics, where the focus is not on assessing the action, but rather the individual involved. The two theoretical approaches that have been selected for discussion here are social contract theory and stakeholder theory, which are both part of the deontological tradition. Using the language of rights and duties, these theories provide practical frameworks that corporations can apply to align their behaviour with their perceived responsibilities. It is argued that the solutions that they offer are more durable than the quick-fix solutions provided by a consequentialist cost-benefit calculation. This is a preference that will not be defended at length, but hopefully the explanations that follow will be convincing.[50]

Although the purpose here is not a detailed philosophical discussion, it is useful to spend a little time looking at the concept of natural law. Laws of nature are described as "universal, eternal, and independent of the will of any human legislator. They are discovered by reason and are the basis of natural rights and duties" (Bunnin & Yu, 2004: 380). There are two major forms of natural law theory: classical and modern. According to Bunnin and Yu (2004: 456), the classical theory is based on the distinction between nature and convention, and draws a direct line between natural law and justice. Natural law can be grounded either in religion or human nature, but is always discovered by human reason.[51] The concept of law is used because the theory refers to the "standards of right choosing, standards which are normative, that is rationally directive and `obligatory', because they are true and choice otherwise than in accordance with them is unreasonable" (Craig, 1998: 685).

Modern natural law theory "claims that natural law grants natural rights to each individual" (Bunnin & Yu, 2004:). According to this approach, political rights and obligations are derived through a social

[50] For a more detailed discussion of these theoretical approaches and their application within a business environment, see Kaptein and Wempe (2002: 54-80), and Smith (2009: 5-8).

[51] It falls outside the scope of this study to provide a detailed assessment of natural law, but it is important to note that the concept has been challenged on both legal and philosophical grounds. Consider the following view from Oliver Wendell Holmes, the American jurist who famously described the United States Constitution as "an experiment, as all life is an experiment" (http://en.wikipedia.org/wiki/Oliver_Wendell_Holmes,_Jr., accessed 18 October 2010). Holmes was a moral sceptic and fundamentally opposed to natural law: "There is in all men a demand for the superlative, so much so that the poor devil who has no other way of reaching it attains it by getting drunk. It seems to me that this demand is at the bottom of the philosopher's effort to prove that truth is absolute and of the jurist's search for criteria of universal validity which he collects under the head of natural law."

contract. The contributions of Locke, Rousseau and Rawls are based on this approach, and discussed in more detail below.

4.4.1 Social contract theory

Social contract theory postulates that universal rules can be agreed upon by human beings, more specifically between individuals and the state. A hypothetical social contract allows individuals to progress from the state of nature that Thomas Hobbes described – more or less at the same time that *The Threatened Swan* was painted – as "solitary, poor, nasty, brutish and short", but also implies that individuals have to comply with the terms of the contract that they agree to. Other than Hobbes, political philosophers who wrote extensively on this topic include John Locke, Jean-Jacques Rousseau and John Rawls.

The basic principle of a social contract is present in Hobbes's discussion of natural law. Hobbes (Newton, 2004: 99) defines natural law as a "general rule, found out by reason, by which a man is forbidden to do that which is destructive of his life". According to Hobbes, the first law of nature is "to seek peace and to follow it". The second law is defined as follows by Hobbes, quoted in Newton: "that a man be willing, when others are so too, as far forth as for peace and defense of himself he shall think it necessary, to lay down this right to all things; and be contented with so much liberty against other men as he would allow other men against himself" (Newton, 2004: 99). Present in this formulation is Hobbes's view that human beings should submit themselves to the Leviathan to obtain peace. It is also the precursor to Kant's categorical imperative.

John Locke defined natural law as follows: "[T]he state of Nature has a law of Nature to govern it, which obliges every one, and reason, which is that law, teaches all mankind who will but consult it, that being all equal and independent, no one ought to harm another in his life, health, liberty or possessions", as quoted in Newton (2004: 102). Within Locke's writing there is an emphasis on the protection of property (as well as the more abstract notions of life and liberty) – this is regulated by the social contract and the law in general.

In the work of Jean-Jacques Rousseau a shift takes place in the concept of the social contract from a focus on nature to one of convention. This is in line with a more individualistic view of humanity, and therefore moves closer to the idea that all people need to participate in the construction of, rather than simply discover, the rules of society: "[T]he social order is a sacred right which serves as a basis for all others. Yet this right does not come from nature; it is therefore based on conventions" (Newton, 2004: 111).

John Rawls advances the discussion about the social contract by introducing the veil of ignorance, a concept that increases the fairness of the contract itself. Under the veil of ignorance, which will be described later, individuals select basic principles that will form the groundwork of all other agreements – these are the basic principles of justice that Rawls calls "justice as fairness". The veil of ignorance is introduced to "[leave] aside those aspects of the social world that seem arbitrary from a moral point of view" (Rawls, 2001: 55). These aspects include natural endowment or social circumstance (Rawls, 2001: 55):

> *Somehow we must nullify the effects of specific contingencies which put men at odds and tempt them to exploit social and natural circumstances to their own advantage. Now in order to do this I assume that the parties are situated behind a veil of ignorance. They do not know how the various alternatives will affect their own particular case and they are obliged to evaluate principles solely on the basis of general considerations.*

Rawls (2001: 56) suggests that – under these conditions – the following basic principles will be agreed upon:

- First: each person is to have an equal right to the most extensive basic liberty[52] compatible with a similar liberty for others.
- Second: social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone's advantage, and (b) attached to positions and offices open to all.

In other words, inequality is not incompatible with justice, but fairness dictates that inequality should be arranged in such a way that it is to everyone's advantage. This is very different from the utilitarian argument that will simply look at the sum total of benefits – in the case of social contract theory inequality in terms of wealth can only be justified if it results in an increase in wealth on both sides of the equation. For example, if I am already wealthy and want to increase the gap between my own wealth and that of the poor, this can only be allowed if my actions will also increase the relative wealth of the poor.

In his discussion of how the work of Rawls can be applied to business organisations, Hsieh (2009) has illustrated how an application of the concept of justice has consequences for issues ranging from remuneration to worker participation, and suggests that "a thorough-going Rawlsian approach to the

[52] According to Rawls (2001) the "basic liberties of citizens are, roughly speaking, political liberty (the right to vote and to be eligible for public office) together with freedom of speech and assembly; liberty of conscience and freedom of thought; freedom of the person along with the right to hold (personal) property; and freedom from arbitrary arrest and seizure as defined by the concept of the rule of law".

normative study of business organizations may call for putting capitalism, at least as we know it, out of business altogether" (Hsieh, 2009: 111).

4.4.2 Stakeholder theory

The original social contract is negotiated between a government and its citizens, and it is perhaps understandable that the application of this theory to the business environment might lead some people to believe that the social (business) contract is only between the corporation and its shareholders. This idea does not accord with the view that a corporation has responsibilities, including some form of contractual obligation, relating to many others entities other than shareholders. The latter view is embodied in stakeholder theory.

Stakeholders are conventionally defined as those who have an impact and are impacted upon by an organisation's decisions and actions. However, it is interesting to go back to the origin of the use of the word in management theory. In 1963, an internal memorandum at the Stanford Research Institute referred to stakeholders as "those groups without whose support the organisation would cease to exist", thus highlighting the strategic nature of stakeholders.[53] In other words, stakeholders play a critical role in the well-being – and ultimately the survival – of the organisation. Therefore, they cannot be seen as groups that must merely be kept informed through slick marketing and communication campaigns. This view is still held by many organisations that do not understand the strategic nature of stakeholder engagement.

Ed Freeman, considered by many to be the father of stakeholder theory, describes the basic tenets of the approach as follows (Freeman *et al*., 2010: 24) :

> *Business can be understood as a set of relationships among groups which have a stake in the activities that make up the business. Business is about how customers, suppliers, employees, financiers … communities, and managers interact and create value. To understand a business is to know how these relationships work. And the executive's or entrepreneur's job is to manage and shape these relationships.*

Figure 15 displays a typical outline of the stakeholders of an organisation, making a distinction between primary and secondary stakeholders.

[53]https://www.boundless.com/accounting/textbooks/boundless-accounting-textbook/introduction-to-accounting-1/overview-of-key-elements-of-the-business-19/business-stakeholders-internal-and-external-117-6595/, accessed 21 December 2014.

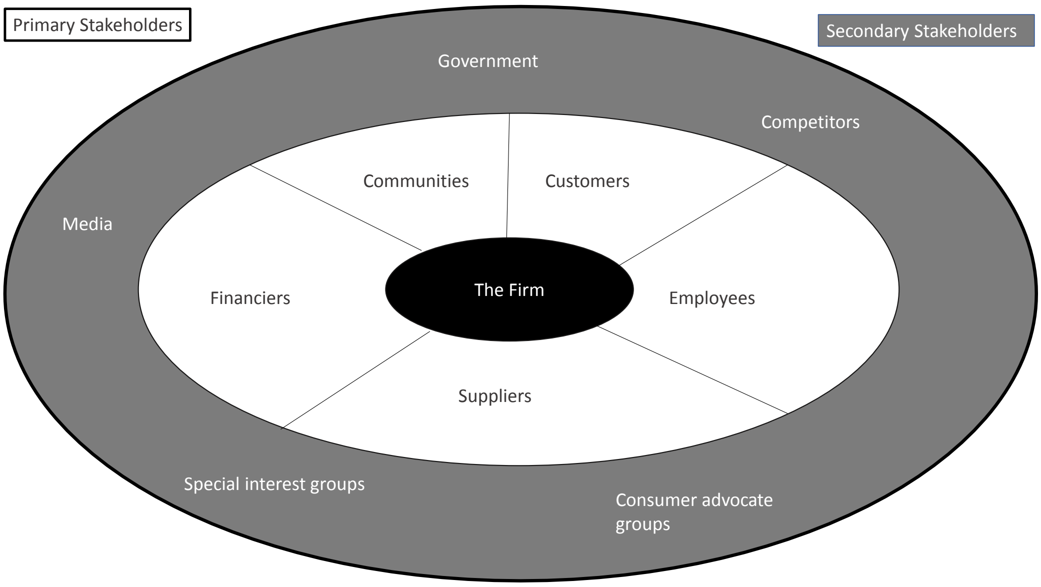

Figure 15: Stakeholder map

Source: Freeman *et al.*, 2010: 14

Stakeholder theory replaces the notion that the managers of corporations have a duty only to shareholders with the idea that there is a broader, fiduciary relationship with stakeholders, “those groups who have a stake in or a claim on the firm” (Freeman, 2002: 39). Of course, even within the confines of shareholder theory there are constraints, because the fiduciary duty of the directors are to the company, not to the shareholders.

Conventionally, the stakeholders in the firm are suppliers, customers, employees, shareholders, local communities and managers themselves. Freeman (2002: 39) argues that “each of these stakeholder groups has a right not to be treated as a means to some end, and therefore must participate in determining the future direction of the firm in which they have a stake”.[54]

As suggested by the view that stakeholders have the right not to be treated as a means to an end, there is a strong normative component to stakeholder theory. Freeman (2002: 45) suggests that we need business *and* moral terms to complete sentences like “Corporations ought to be governed …” or “Managers ought to act to …”. He describes stakeholder theory as a “genre of stories about how we could live” (Freeman, 2002: 44), rather than a rigid, prescriptive theory. Attempts to prescribe *one* normative core or *one* stakeholder theory are “at best a disguised attempt to smuggle a normative core past the unsophisticated noses of other unsuspecting academics who are just happy to see the

[54] For a brief video clip where Freeman discusses stakeholder theory, view http://www.youtube.com/watch?v=bIRUaLcvPe8, accessed 23 October 2010.

end of the stockholder orthodoxy" (Freeman, 2002: 45). This conscious attempt to steer clear of absolutism was discussed earlier and will be revisited when ISCT is introduced in the next chapter.

The acknowledgement of different stakeholders in the corporation also sets the scene for different agreements – or social contracts – to be agreed upon between them. Once again, this serves as an introduction to ISCT. Freeman's discussion of the "Doctrine of Fair Contracts" uses the same "veil of ignorance" thought experiment, in this case applied where individual stakeholders try to agree to the "rules of the game". Freeman (2002: 46-47) argues that stakeholders would agree to the following principles:

- Entry and exit: each stakeholder must be able to determine when an agreement exists, and also be able to determine whether it is valid or not;
- Governance: there must be consensus among all stakeholders about how the rules of the game can be changed;
- Externalities: if a contract between two parties imposes a cost on a third party, that party has the right to become a party to the contract and the terms should be renegotiated;
- Contracting costs: all parties must share the cost of contracting;
- Agency: any agent must serve the interests of all the stakeholders; and
- Limited immortality: because the continued existence of the corporation is in the interest of all stakeholders, it should be managed as if it can continue to serve the interests of all stakeholders through time.

4.5 Conclusion

This chapter introduced the discussion about the moral purpose of business. The debate about the moral case versus the business case was discussed, and both social contract theory and stakeholder theory were introduced. The overview of these theoretical approaches does not do justice to the rich and complex philosophical discourse that underpins them, and it is subjected to the limitation of a particular Western intellectual paradigm, as declared earlier.

Growing consensus about moral obligations and the emerging new role of the corporation in society was discussed. But just because there is growing consensus – or even if there were to be complete consensus – does not denote that the consensus position is necessarily acceptable from an ethical perspective. As was explained in the introduction, bridging the gap between the 'is' and the 'ought' is one of the claims of Donaldson and Dunfee's Integrative Social Contracts Theory. The next chapter will introduce and examine this theory.

Chapter 5: Integrative Social Contracts Theory

5.1 Introduction

Against the backdrop of the previous discussion about normative theory and more specifically social contract theory and stakeholder theory, this chapter introduces Integrative Social Contracts Theory (ISCT). This theory was developed by Tom Donaldson and Thomas Dunfee to provide guidance on ethical issues in international business. Following a general introduction to the main tenets of the theory, the links with stakeholder theory will be discussed, and major critiques of ISCT will be investigated.

One of the major strengths of the work of Donaldson and Dunfee is that they provide a practical framework for decision making that is based on sound theory, without getting stuck in the meta-debate about whether there can be one, all-encompassing approach to ethics. They claim that it does not matter which normative theory is relevant for the decision maker: "ISCT counsels economic practitioners to attend specifically to the reality of microsocial contracts" (Donaldson & Dunfee, 2000: 482).

In his earlier work, Donaldson (1989) argues that morality should be applied to international affairs, and – more specifically – international business. According to him this is the case whether morality is simply defined as enlightened self-interest or something more fundamental. He provides a detailed discussion of both cultural relativism and Hobbesianism, and illustrates how both these approaches fail to argue convincingly against the application of morality. Elsewhere Donaldson (2001) discusses how morality can be applied to international business in a way that avoids both relativism and absolutism. In an article written by Donaldson in 1996, the basic outline of ISCT is already present; in it he proposes that companies must be guided by three principles: "Respect for core human values, which determine the absolute moral threshold for all business activities; [r]espect for local traditions; and [t]he belief that context matters when deciding what is right and what is wrong" (Donaldson, 2001: 478).

The core human values (later referred to as hypernorms) to which Donaldson refers are defined as respect for human dignity, respect for basic rights and good citizenship (Donaldson, 2001: 479). Because these values are too vague to provide specific guidance, there is a requirement for companies to develop more specific codes: "Whenever intolerable business situations arise, managers should be guided by precise statements that spell out the behaviour and operating practices that the company demands" (Donaldson, 2001: 480). The development and implementation of effective internal codes remains one of the single biggest challenges for corporations around the world. In broad terms there have been two main approaches: a compliance-based approach that provides detailed information and is usually more focused on the prevention of unethical behaviour, and a values-based approach that encourages ethical behaviour and allows employees to take a specific context into account when they make decisions. Both of these could be viewed as micro contracts in the language of ISCT.

Also relevant in this context is the development of global codes, of which the UN Global Compact is one of the most important examples. Williams (2000: xiv) asked the question: “Should we try to move toward one global code of conduct?” at more or less the same time that the UN Global Compact was launched. Interpreting the signs of the time, including an increase in various global initiatives to move towards consensus on global values (27 different international codes are listed), the message of Williams’ book – as also reflected in the subtitle – is that a global code is an idea whose time had come. However, as was seen in the previous section, the UN Global Compact does not regard itself as a code (Williams, 2004: 762).

5.2 Summary of Integrative Social Contracts Theory

In a nutshell, ISCT suggests that there is a universally binding moral threshold (comprising universal principles or hypernorms) that would apply anywhere in the world. At the same time, context matters from a practical as well as theoretical perspective when deciding between right and wrong. According to the theory, corporations should have respect for local customs and conventions and can therefore negotiate micro contracts within moral free space, as long as they do not transgress the universal moral threshold.

The links with natural law (universal values compared to hypernorms) and stakeholder theory (through an emphasis on local context and local communities) are immediately evident.

As illustrated in Figure 16, ISCT provides a sound, normative framework for global business through the concept of hypernorms. According to Dunfee (2006: 304), the primary purpose of ISCT is “to provide a means of practical guidance to ethical decision makers, particularly managers”. At the same time the introduction of moral free space provides the opportunity for meaningful local action, the ultimate way in which the success of initiatives such as the UN Global Compact should be measured.

Figure 16: Visual representation of ISCT

Source: Malan, 2013b

When they introduced their theory formally, Donaldson and Dunfee (1994) positioned ISCT as an attempt to bridge the gap between empirical and normative research in business ethics, where researchers with philosophical training mainly employ normative, non-empirical methods, while researchers in business and management science with training in empirical methods apply their techniques – mostly in descriptive fashion – to areas such as managerial motivation and investigating the relationship between ethical behaviour and financial performance. Donaldson and Dunfee (1994: 254) describe their proposed theory as a "normative theory … which incorporates empirical findings as part of the contractarian process of making normative judgments".

The basic message of ISCT is that "implicit agreements constitute part of the basic software of business ethics" (Donaldson & Dunfee, 2000a: 437). As opposed to conventional social contract theory that investigates the contracts between citizens and governments, ISCT focuses on how economic participants will define business ethics.

The concept of a 'veil of ignorance' is important in this regard. Rawls introduced the concept in order to ensure objective decision making. He explains it as follows (Rawls, 1971: 12):

> *It is understood as a purely hypothetical situation characterized so as to lead to a certain conception of justice. Among the essential features of this situation is that no one knows his place in society, his class position or social status, nor does any one know his fortune in the distribution of natural assets and abilities, his intelligence, strength, and the like. I shall even assume that the parties do not know their conceptions of the good or their special psychological*

> *propensities. The principles of justice are chosen behind a veil of ignorance. This ensures that no one is advantaged or disadvantaged in the choice of principles by the outcome of natural chance or the contingency of social circumstances.*

The veil of ignorance in ISCT is more revealing than the one suggested by Rawls. The basic assumption made by Donaldson and Dunfee in their thought experiment conducted to come up with ISCT is that participants do not know their economic standing, e.g. which company they work for nor what their personal wealth is. However, they are granted knowledge about their economic and political preferences, as well as a basic sense of right and wrong. Under these circumstances, participants are then hypothetically gathered for “a global congress to construct an agreement that would provide a fundamental framework for ethical behaviour in economic activities” (Donaldson & Dunfee, 2000: 438). In fact, in their early introduction of the theory the authors do not use the concept of a veil of ignorance to describe their thought experiment, because they deem the requirement for consensus to be sufficient (Donaldson & Dunfee, 1994: 260):

> *The principles that people would choose behind such a veil of ignorance are in this way presumed to be fair … In other instances of social-contract reasoning, fairness is secured simply by including among the contractors all persons whose interests are affected and by requiring consensus in the adoption of the terms of the contract – without the additional device of a veil of ignorance. It is the second strategy that we adopt.*

In this formulation one can already see the authors’ affinity for a stakeholder approach. The use of the word “integrative” emphasises that “ISCT is based upon a hypothetical social contract whose terms allow for the generation of binding ethical obligations through the recognition of actual norms created in real social and economic communities. A hypothetical social contract is thereby integrated with real or extant social contracts” (Dunfee, 2006: 304). Again, one can see the link between the theoretical (the macro contract of the fundamental framework is hypothetical) and the empirical (*real* micro contracts within *real* communities that can be studied empirically).

According to the authors, the following core assumptions will frame discussions about such a framework:

- Good answers to moral problems require an acquaintance with community-specific norms – knowledge about theory alone is not good enough. This is referred to as “bounded moral rationality” (Donaldson & Dunfee, 1999: 28). The authors use the example of corporate downsizing and illustrate how complex circumstances will prevent a simple application of any chosen moral theory: "[R]easonable individuals armed with the same facts and who accept the same ethical theory may achieve different results in applying the theory" (Donaldson & Dunfee, 1999: 29);

- High quality and more efficient economic interaction is preferred to lower quality and less efficiency, and ethical behaviour can enhance both the quality and efficiency of such interaction. By way of example, high levels of trust within a society will reduce transaction costs because of the reduced need for expensive administrative and legal procedures; and
- "Ceteris paribus, economic activity that is consistent with the cultural, philosophical, or religious attitudes of economic actors is preferable to economic activity that is not" (Donaldson & Dunfee, 1999: 28). The impact of these attitudes on economic activity and ultimately also on ethical decision making is referred to as a discretionary area, or "moral free space", which will be explained below.

Based on these assumptions, Donaldson and Dunfee argue that their hypothetical global congress for business ethics will not be able to agree on a detailed set of ethical rules and guidelines, but rather will agree on a process or broad framework. This framework of business ethics is what they call the Global ISCT Macrosocial Contract for Economic Ethics. The terms of the contract are (Donaldson & Dunfee, 1999: 46):

> *(1) Local economic communities must have moral free space in which they may generate ethical norms for their members through microsocial contracts. (2) Norm-generating microsocial contracts must be grounded in consent, buttressed by the rights of individual members to exercise voice*[55] *and exit. (3) In order to become obligatory (legitimate), a microsocial contract norm must be compatible with hypernorms. (4) In cases of conflict between norms satisfying macrosocial contract terms 1 to 3, priority must be established through the application of rules consistent with the spirit and letter of the macrosocial contract.*

Moral free space is defined as "[t]he freedom of individuals to form or join communities and to act jointly to establish moral rules applicable to the members of the community" (Donaldson & Dunfee, 1999: 38). If a norm or a moral rule is generated within moral free space and has the support of the majority of the community, it is said to be "authentic". A community is defined as "a self-defined, self-circumscribed group of people who interact in the context of shared tasks, values, or goals and who are capable of establishing norms of ethical behavior for themselves" (Donaldson & Dunfee, 1999: 39).

[55] The right of voice is defined as "the right of members of a community to speak out for or against existing and developing norms" (Donaldson & Dunfee, 1999: 43).

Members of a particular community have an ethical obligation to abide by the existing authentic norms, as long as these norms do not violate hypernorms. Hypernorms are defined as "principles so fundamental that they constitute norms by which all others are to be judged", and are "discernible in a convergence of religious, political and philosophical thought" (Donaldson & Dunfee, 2000: 441). There are three distinct hypernorm categories (Donaldson & Dunfee, 1999: 53):

- Procedural hypernorms – these stipulate the rights of voice and exit, and are defined as the conditions "essential to support consent in microsocial contracts";
- Structural hypernorms – principles "that establish and support essential background institutions in society"; these are necessary for political and social organisation; and
- Substantive hypernorms – these are the fundamental "concepts of the right and the good".

Whether hypernorms have their origin in natural law or elsewhere does not concern Donaldson and Dunfee very much: "[w]hatever the final answer to the question of whether hypernorms have sources in nature as immutable verities, or instead reflect the common humanity of global citizens as similar solutions are found to shared problems across the world, that answer is not critical to their value within ISCT" (Donaldson & Dunfee, 1999: 52).

Donaldson and Dunfee (1999: 60) include the following types of evidence in support of hypernorms – the applicability of two or more of the points below per hypernorm would be sufficient for a "rebuttable presumption that it constitutes a hypernorm":

- Widespread consensus that a principle is universal;
- Inclusion in well-known global industry standards;
- Supported by prominent NGOs, regional government organisations, global business organisations or an international community of professionals;
- Consistently referred to as a global ethical standard by the international media;
- Consistent with precepts of major religions and philosophies, as well as findings concerning universal human values; and
- Supported by the laws of many different countries.

If an authentic norm violates a hypernorm it is not a legitimate norm.[56] A member of a community would be within his or her rights to deny the legitimacy of an authentic norm in such a case. Donaldson and Dunfee are not specific about whether members would be a morally obliged to oppose offending norms, but they do acknowledge the right to civil disobedience. Even if norms are both authentic and legitimate, this does not mean that each member of the community has to agree with them (although

[56] An authentic norm is generated within moral free space and has the support of the majority of the community.

they would have to abide by them). Members have the right of voice (to speak up) or exit (to leave). Both of these, especially the right to exit, can come at a high price, and this is acknowledged by Donaldson and Dunfee (1999: 42).

5.3 Integrative Social Contracts Theory and stakeholder theory

Even though Donaldson and Dunfee make a distinction between their definition of community and the concept of stakeholders, it is argued by them that the concepts are sufficiently similar for ISCT to be interpreted as entirely compatible with stakeholder theory. They do acknowledge that the concept of a stakeholder is useful in terms of identifying relevant ISCT communities (Donaldson & Dunfee, 2000: 441), and Dunfee talks about the promising recommendation of coupling ISCT with stakeholder dialogue. Dunfee (2006: 314) describes the relationship between ISCT and stakeholder concepts as follows:

> *By emphasizing relevant communities, ISCT is broadly supportive of the key idea of stakeholder management: that the interests of those who are affected by or are at risk as a result of business decisions should be considered. That is not to say that ISCT is co-extensive with stakeholder management. The focus of ISCT is on communities and norms, not on individual stakeholders and interests not reflected in community norms. It may well be that the decision-maker community may follow a norm of stakeholder management, in which case, the overlap between stakeholder ideas and ISCT would be nearly perfect. But such an outcome requires the existence and identification of a "stakeholder" norm within a relevant, priority community.*

He acknowledges that stakeholder dialogue can provide a "more fine-grained test of authenticity" at the microsocial level, and also that it can be "part of the glue that holds together the assent essential at the community level" (Dunfee, 2006: 321). Dunfee provides a sober assessment of the relationship between the two (Dunfee, 2006: 321):

> *Although in one sense stakeholder concepts and ISCT can be seen as competing for the attention of moral theorists, in a more basic sense they can be seen as complementary. The rich literature on identification of stakeholders points the way toward recognition of ISCT-relevant communities. ISCT, in turn, provides a compatible normative basis for sorting among competing stakeholder claims and solving other thorny issues confronting stakeholder approaches.*

Freeman *et al*. (2010: 219) briefly discuss ISCT and call it "a powerful tool for thinking about the moral sub-structure of economic life". Their discussion is mostly descriptive and they do not express their own opinion on the relationship between ISCT and stakeholder theory.

5.4 Major critiques of Integrative Social Contracts Theory

Dunfee (2006) defines recurring themes in literature critical of ISCT, including questions about the nature, value and existence of hypernorms, questions about the practicality of ISCT as a decision-making tool, and questions about the sufficiency of justifications for creating ethical obligations for managers. In addition, some critics have called for a full-fledged moral theory to back up ISCT.

5.4.1 Hypernorms

The recurring critiques concerning hypernorms address the following questions (Dunfee, 2006: 305):

- Can hypernorms be identified for actual decision-making?
- Are hypernorms sufficiently justified in the ISCT macrosocial contract?
- Should hypernorms be significantly redefined or are they even necessary to the overall ISCT framework?
- Do hypernorms change or evolve over time?

In terms of the link between hypernorms and actual decision-making, the point is made that the hypernorms really form part of the thought experiment to construct the macro contract and should not be too detailed: "the more specific and detailed an alleged substantive hypernorm is, the more likely it will be controversial, with many disputing its existence … If Moses had come down from the mountain with 128 000 commandments, their credibility and impact would have been greatly reduced" (Dunfee, 2006: 307). Dunfee (2006: 308) also discusses the work of Soule, who argued that detailed qualifications to hypernorms will make them irrelevant in the event of rapidly changing circumstances .

With regard to the justification of hypernorms, specifically substantive hypernorms, critics like Boatright and Van Oosterhout are concerned about the *source*. They would like to see some external ethical theory that would serve as the foundation of hypernorms. They briefly discuss the suggestion by Van Oosterhout that the commitments implicit in a contractualist framework (individualism, freedom, etc.) can provide this foundation.

With regard to the view that hypernorms are not required for ISCT to be effective (Frederick referred to their use as a "philosophistic fallacy"), Dunfee (2006: 31) states the following: "hypernorms are an important bulwark against cultural relativism. If they are removed, leaving only authentic norms and the moral free space component of ISCT, then some other means of guarding against relativism is required".

On the question of whether hypernorms can change over time, Dunfee (2006: 311) keeps an open mind. He argues that this would depend on an understanding of the basic nature of hypernorms:

> *If they were assumed to be immutable prescriptions from the natural law, as some would believe, then they would not be considered changeable … if substantive hypernorms were assumed to reflect the wisdom and experience of humanity across time and circumstance, then they would be assumed to change on the basis of new wisdom and context.*

5.4.2 Decision making

Many people regard ISCT as too complex, and Dunfee has to agree that a four-page decision tree (Donaldson & Dunfee, 1999: 208-211) for applying ISCT does not ease the process. He also acknowledges that a manager who faces an urgent predicament cannot be expected to conduct research into the attitudes and behaviours of community members before making an ethical decision (Dunfee, 2006: 313). However, the long list of applications that have already taken place, which include diverse issues such as conflicting crosscultural norms, downsizing, computer ethics, bribery, direct marketing, consumer privacy, sweatshop labour standards, marketing of credit cards to college students, and many others, makes it clear that scholars find the theory useful and applicable to many practical decision-making environments.

5.4.3 Justification for ethical obligations

ISCT stipulates that legitimate norms that are developed within communities are ethically binding on the members of the community. Although there are always the rights of exit and voice, some critics regard this as insufficient. Donaldson and Dunfee (1999: 42) also make provision for civil disobedience:

> *Reasonably believing that an authentic norm of an organisation violates a hypernorm, a morally disgruntled employee could deny the legitimacy of the norm through a refusal to follow it. If indeed the norm violates a hypernorm, conforming to it is not ethically obligatory, and the dissenting employee is within her rights in refusing to follow the norm.*

5.4.4 Lack of a full-fledged moral theory

John Boatright (2000: 456) is one of the critics who requires theoretical backup for ISCT, and specifically for hypernorms. He argues that some ethical theory is required in order to know what hypernorms entail. Donaldson and Dunfee’s (2000: 481) pragmatic response to this request is that it is “well-intentioned, but idealistic”. They also do not seem too concerned about the absence of such a theory: “[W]hile the theory would be crisper and its results surely more transparent were such a background theory found, ISCT nonetheless adds considerable value without such a specification” (Donaldson & Dunfee, 2000: 482).

5.5 Conclusion

One of the benefits of a social contracts approach is that it makes provision for values that change over time, and for existing contracts to be renegotiated. Donaldson and Dunfee (2000: 437) explain how – in less than 50 years – the focus shifted from merely producing goods and services to expanded responsibilities such as fairness, quality of life, gender issues and work-life balance. Given the events that have taken place in the first decade of the 21st century, it seems likely that we are about to experience even more rapid change. It was mentioned above that Dunfee (2006: 310) acknowledges the contrary views on whether hypernorms can change over time.

A pragmatist's response might help. The following quote from Richard Rorty's address at the annual meeting of the Society for Business Ethics in 2005 provides an interesting perspective (Rorty, 2006: 371):

> *God has provided no algorithms for resolving tough moral dilemmas, and neither have the great secular philosophers. Urging that there is something that makes actions wrong or moral beliefs true is an empty gesture. For we have no way of getting in touch with this purported truth-maker save to seek coherence among our own moral intuitions. Though truth and wrongness are not relative notions, justification is. For what counts as justification, either of actions or of beliefs, is always relative to the antecedent beliefs of those whom one is seeking to convince. Anti-slavery arguments that we find completely persuasive would probably not have convinced Jefferson or Aristotle. Our best arguments against torture would probably not have budged the devout and learned prelates who ran the Holy Inquisition. That is why we are sometimes tempted to say, misleadingly, that a certain practice is right in one culture and wrong in another, or that a certain astrophysical theory was true for Aristotle but false for Newton. The reason this turn of phrase is misleading is that all we really mean is that, given his other beliefs, Aristotle was perfectly justified in accepting a false theory. Analogously, the Mongol horde was perfectly justified in gang-raping the women of Baghdad, given their other beliefs. Their behavior was, to be sure, wrong. If there were such a thing as absolute justification, we could say that it was absolutely unjustified. But there is no such thing.*

To put our own contemporary values into perspective, here is an example of wisdom and experience from Victorian England. The following is an extract from a "Notice to Shop Assistants",[57] dating back to London of 1854:

[57] http://funambulism.com/2008/02/notice-to-shop-assistants/, accessed 19 August 2013.

- *Any employee who is in the habit of smoking Spanish cigars, getting shaved at a barber's shop, going to dances and other such places of amusement will surely give his employer reason to be suspicious of his integrity and all round honesty*
- *Each employee must pay not less than one guinea per year to the Church, and attend Sunday school every Sunday*
- *Men are given one evening a week for courting purposes, and two if they go to prayer meetings regularly*
- *After 14 hours work, spare time should be devoted to reading good literature*

With the exception of smoking – for different reasons and not restricted to Spanish cigars – all these issues are unlikely to feature in contemporary ethical discussions or ethical codes. But they did form part of a legitimate micro contract more than 150 years ago.

The previous chapters examined the UN Global Compact, the largest voluntary corporate responsibility initiative in the world; the corporation, its purpose and selected normative theories; and ISCT, one of the most influential contemporary business ethics theories. The common ground shared between these elements is a focus on morality. The UN Global Compact comprises a set of principles that are fundamentally moral in nature. The purpose of business has been defined as fundamentally moral, and the preferred moral theory of this study, ISCT, makes provision for a universally binding moral threshold, but also provides a container for empirical studies of corporations and how they behave. In the next chapter ISCT will be applied to the UN Global Compact.

Chapter 6: The application of Integrative Social Contracts Theory to the UN Global Compact

6.1 Introduction

In this chapter it is argued that the application of ISCT to the UN Global Compact can bring about a more nuanced understanding of the initiative. It is also argued that this application can enable signatories to the initiative to respond to its formal and moral requirements in a way that will strengthen their corporate responsibility programmes. This will ultimately have a fundamental and positive impact on how those corporations deal with responsibility, and will also strengthen the UN Global Compact itself. In support of this argument, case studies from African corporations are presented. A detailed analysis of communications on progress from South African corporations that are signatories to the UN Global Compact are also provided. In line with the theoretical approach, this information is presented within the container of ISCT, not to prove the theory, but as empirical data that can strengthen the normative argument.

The overt application of ISCT to the UN Global Compact can be an immensely powerful and impactful exercise. Despite its detractors, the UN Global Compact is uniquely positioned to play a key role in changing beliefs about the purpose of business, and by extension to have a positive impact on the way in which corporations behave around the world. As has been pointed out by various scholars, the UN has moral authority, convening power, global reach and neutrality (Williams, 2004; Rasche & Waddock, 2014). The risk of free riders is well-known and accepted by the UN Global Compact, since the alternative of extensive scrutiny and verification, as proposed by Sethi and Schepers (2013), is neither feasible nor part of the mission of the UN Global Compact. Convincing companies to accept a new definition of the purpose of business is helpful – this entails a new understanding of the relationship between the business case and the moral case. Very importantly, it does not imply a choice between the two (distinction does not imply separation), but it does imply moving beyond the 'enlightened self-interest' model. It means putting the moral case first, accepting the moral purpose of business, and understanding that – through that action – the business case, in its inclusive, long-term, sustainable format, will unfold. To be sure, many participants in the UN Global Compact see only the business case, but they might be persuaded by the argument presented here.

There are relatively few CEOs or board members in the world that have heard of ISCT, and even fewer who have read *Ties That Bind* or other scholarly works in this area. The fundamentals of ISCT are not difficult to grasp, but should be interpreted to make them accessible for a corporate audience. The practical application of ISCT goes far beyond the UN Global Compact – a corporation certainly does not have to be a signatory to the UN Global Compact to benefit from it. Ultimately, ISCT has to join hands with many other dimensions of corporate responsibility to provide a comprehensive, practical framework. For the moment, the focus will however remain on ISCT and the UN Global Compact.

It should be stated at the outset that neither the UN Global Compact nor ISCT offers a complete solution. It is interesting to note the similarity in criticisms of both – both are under attack for not offering a perfect solution, when in both cases offering a perfect solution is not the intention at all.

It is also interesting to note that both the UN Global Compact and ISCT have a brand to protect. For the UN Global Compact this is easier because there are strict requirements about signing up to the initiative and how the UN brand can be used. It is slightly more difficult to protect a theory. Since my own contribution – the application of ISCT to the UN Global Compact – is to some extent an adapted version of ISCT, I would like to acknowledge that I am aware of the concerns raised by Dunfee (2006) with approaches that seek to add concepts or procedures to ISCT. He raises four concerns:

- Additions can limit the applicability of ISCT, since its objective is to provide general guidance on ethical issues;
- Additions can limit the universality of ISCT;
- Additional procedures can complicate the decision process which will make it less useful as a practical decision tool; and
- Additions may cause the theoretical framework to become incoherent or inconsistent.

Although these are valid concerns, it is important to note the difference between additions and adaptations. In this dissertation a specific adaptation of ISCT is offered, which is required for an application within a specific context.

Donaldson has not written extensively about the UN Global Compact. In a brief article entitled "De-compacting the Global Compact", Donaldson (2003) examines the ethical rationale that is required to make the UN Global Compact a success.[58] His argument is that companies must take three steps to satisfy all conditions of the UN Global Compact: egoism, cooperative egoism and corporate citizenship (Donaldson, 2003). Implicit in his argument is a distinction between being a signatory of the Compact, and "to support the Compact adequately".[59] According to Donaldson (2003: 70), to justify the full Global Compact "companies must somehow be capable of reaching the third, and most difficult rung".

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[58] It is important to note that this article was written before the addition of the 10th principle on anti-corruption.
[59] According to the current structures of the Compact, it is possible to be a signatory without having reached the third rung of the ladder. This type of differentiation might also be behind the introduction of the LEAD programme within the Global Compact structures.

Corporate egoism provides the empirical no-brainer, where there is a direct short-term benefit to the corporation, e.g. switch off the lights to save on your electricity bill. Although he is not specific, Donaldson (2003) makes it clear that some principles of the Compact can be justified simply by showing companies that they will make more money.

Cooperative egoism refers to a state of affairs where companies cooperate because it is in their collective self-interest to do so, e.g. even though an individual bribe might result in an immediate short-term advantage for a particular corporation, the system will be more efficient and it will be to everyone's advantage if all corporations agree not to undermine the political and judicial systems through acts of bribery. In this regard Donaldson (2003: 71) refers to the efficiency hypernorm to describe cooperative egoism – this is one of the very few direct links in the literature between ISCT and the UN Global Compact. He mentions a few other principles that would fall under the efficiency hypernorm: respect for intellectual property, engaging in fair competition and avoiding monopolies, avoiding nepotism and 'crony capitalism', not abusing government relationships, avoiding bribery and respecting environmental integrity.

Corporate citizenship is the third, and most difficult, rung of the ladder, because it expects companies to do something simply because it is the right thing to do, e.g. to provide basic housing and health services in locations where these are not available. Williams (2004: 756) states that "[t]he overall thrust of the Global Compact is to accent the moral purpose of business". Donaldson (2003: 71) refers to Preston and others who have called this a "redefinition of the corporation". To conclude his article, Donaldson makes the implicit link between ISCT and the UN Global Compact:

> *How do we justify this new conception of the corporation as a global citizen? … Social contract theory, along lines first charted by John Rawls (1971) and in evidence in much current business writing, is promising in explaining the evolving social contract between global corporations and the global citizenry that the Global Compact recognises. The very name "Global Compact" suggests a hypothetical, implicit, social contract.*

The distinction between the business case and the moral case is present in the article by Donaldson (2003). Elsewhere he states the following in support of his own view that self-interest is linked to the health of society (Donaldson, 2010: 3):

> *When UN secretary-general Kofi Annan in an address to The World Economic Forum on January 31, 1999, called upon global corporations to unite in affirming the principles of the UN Global Compact, he appealed not only to their moral idealism. He appealed also to their enlightened egoism.*

The potential problem with Donaldson's contribution is that he only uses examples of contributions that will usually be classified as discretionary, e.g. providing housing and health services where they are not available. This approach strengthens the disconnect between the moral case and alignment with core business operations.

In Table 12 Donaldson's three rungs are compared with Kohlberg's stages of moral development.

Table 12: Donaldson compared to Kohlberg

Donaldson	Kohlberg
Egoism	Pre-conventional morality (stage 2): instrumental exchange (The Egoist)
Cooperative egoism	Conventional morality (stages 3 and 4): tribal and societal conformity
Citizenship	Principled/Post-conventional morality (stages 5 and 6): prior rights and social contract, universal ethical principles

The key question here is whether the sequence of the stages of development as described by Kohlberg (1981) also applies, as Donaldson's does, to a corporate environment. For Kohlberg there can be no leap to moral maturity, but is such a leap possible for a corporation? If one makes the assumption that most adults who work for corporations will have achieved some level of moral maturity, is it then acceptable for some corporations if their culture were to remain at the equivalent of a pre-conventional moral stage? And is this not what an overemphasis on the business case is achieving at the moment? The difficulty with changing beliefs about the purpose of business is that the egoistic nature of business has been embedded in the business world for so long (and is encouraged by business schools) that there seems to be a logical disconnect between the conventional and the principled stages of corporate development. That is why the third rung of the ladder is so difficult to achieve, because it comes almost as a surprise to some companies which thought the first two rungs were relatively easy to climb. One can hear them ask: "We are in this to make money and now you expect us to do *what*?"

In *Ties That Bind*, Donaldson and Dunfee, (1999: 152) discuss moral psychology, and specifically the Kohlberg model. They conclude as follows :

> *When all of the ISCT components are recognized, including the macrosocial contract and hypernorms, ISCT properly fits into the category of postconventional reasoning. It is therefore, either stage 5 because of its similarity to the classical social contract approaches, or stage 6 because of the core values and rights recognized through hypernorms.*

This is where the redefinition of the corporation comes in – if business people can start out with a different understanding of the purpose of the corporation, the rest becomes much easier. To use a different analogy, instead of a ladder with three rungs, imagine having to cross a river with three stepping stones where it is only the first one that is difficult to reach.

This is the solution which is implicit in ISCT, but requires a conceptual re-arrangement. When applying ISCT to the UN Global Compact it is necessary to start with an acceptance of the non-negotiability of the 10 principles. From there the rest will follow.

ISCT has already attempted the ambitious task of providing a bridge between normative and descriptive theory (Dunfee, 2006: 304). The next – even more ambitious – step is to bring academics and practitioners closer to each other. This aim is already present in *Ties That Bind*, when Donaldson and Dunfee (1999: 23-24) state: "[W]e we reject the notion that ethical theories must be designed only for practitioners or only for theorists. In this book, we present ISCT as a theory that should be *used* as well as footnoted."

Of course, discussions between academics and practitioners happen all the time, often initiated by academic institutions and are also coordinated by the UN Global Compact.[60] Another place where meaningful interaction occurs is the World Economic Forum.[61] Many other initiatives also have dedicated academic networks where relevant issues are discussed. One of the most effective initiatives in this regard is the Canadian-based Network for Business Sustainability.[62]

[60] The Global Compact has a dedicated section on its website that lists relevant academic literature: http://www.unglobalcompact.org/NewsAndEvents/Academic_Literature.html, accessed 18 August 2013.

[61] The link between the Global Compact and the World Economic Forum extends beyond the fact that Kofi Annan launched the idea of the Global Compact at the Forum's annual meeting in Davos in 1999. There are also theoretical links, firstly to the contribution of Klaus Schwab in terms of global corporate citizenship, and secondly with regard to an initiative of the Forum's Global Agenda Council on Values. At its 2013 annual meeting in Davos, the World Economic Forum's Global Agenda Council on Values launched a document entitled "A New Social Covenant". For the sake of transparency it is necessary to disclose that the writer is a member of this council. The document calls for a dialogue between citizens, corporations and governments to address some of the fundamental challenges of our time. An extract from the document reinforces the emphasis on the moral purpose of the corporation (World Economic Forum, 2013: 2): "The collapse of financial systems and resulting economic crises has generated a growing disbelief and a fundamental distrust in the ways things operate and how decisions are made. Old social contracts have unravelled. Former assumptions and shared notions about fairness, agreements, reciprocity, mutual benefits, social values, and expected futures have all but disappeared. The historic social contract between business, government and society seems to be broken, and the legitimacy of corporations has reached a new low point, with business running the risk of losing its license to operate. We see a growing public indignation at the perceived disconnect between perks for a few and the rights of many. Citizens are demanding more collaborative, sustainable and inclusive methods of value(s) co-creation. It is clear that effective leadership must incorporate a values dimension. However, while many leaders espouse principles including transparency, integrity, and the common good, actual practice often lags far behind. Due to growing interdependencies and interconnectivity, this gap between values and behaviour is increasingly open to public scrutiny and subject to systemic effects. It appears that even well-articulated and generally supported principles are difficult to translate into day-to-day decision-making and into the behaviours observed by suppliers, dealers, customers, and employees, sometimes with diverse and conflicting value systems." This process, which will incorporate a series of meetings and possibly a publication, does not compete with the Global Compact, and the intention certainly is not to set up a new formal initiative like the Global Compact. But discussions like these will assist to raise awareness of the issues, and can ultimately strengthen the UN Global Compact as well. The original discussion document has been included as Appendix H.

[62] For more information, visit http://nbs.net/.

6.2 The basic argument

Scholarly work linking ISCT with the UN Global Compact is limited. Besides Donaldson's brief article on the UN Global Compact which alludes to a link, Williams (2004: 756) has explained how ISCT can provide a justification for the two-tier pricing system used by the pharmaceutical industry to make life-saving drugs affordable in developing countries, and has explicitly linked the UN Global Compact and ISCT: "One way to understand the ten principles of the Global Compact, then, is as an expression of either norms and hypernorms (fairness, respect for other people and integrity) or principles derived from hypernorms (workplace safety and discrimination)."

Following Williams and the implicit position of Donaldson, it is argued here that the 10 principles of the UN Global Compact can be regarded as substantive hypernorms, and that the principles, collectively, can be regarded as a hypothetical macro contract. For the principles to qualify as hypernorms there are certain conditions that must be met – these have been discussed in the section on ISCT: they should broadly relate to general consensus, alignment with existing standards, support by major stakeholder groups, consistency with major religions and philosophies, and incorporation into existing legal frameworks. It is clear that all 10 UN Global Compact principles are supported by the majority of these types of evidence, although for the sake of this argument one has to exclude the fact that the principles are part of a well-known international standard (the UN Global Compact), since that would constitute a circular argument.

It is further argued that the way in which hypernorms limit moral free space can provide practical guidance to companies that have subscribed to the UN Global Compact, not only in how they need to adhere to the 10 principles, but how they can structure and implement their broader corporate responsibility programmes. The following statement by Donaldson and Dunfee (1999: 50) supports this position: "Since such principles [hypernorms] are designed to impose limiting conditions on *all* micro contracts, they cannot be derived from a single micro contract, but must emanate from a source that speaks with univocal authority for all micro contracts."

However, there is a need for a slight adaptation, and that simply addresses the sequence of application. Donaldson and Dunfee developed the theory as a guide for practical decision-making. In their very detailed examples of the application of ISCT, they always start with "recognize the ethical problem". In other words, once faced by a practical decision, the decision maker proceeds to identify the appropriate hypernorms. Within the context of the UN Global Compact the writer suggests a reversal of this process. In the words of one of South Africa's wine pioneers when he defended the practice of placing wooden chips inside the barrel to enhance the wine's wooded aroma: "If you can put the wine in the wood (i.e. the barrel), you can put the wood in the wine". Viewing the UN Global

Compact as espousing a (non-exhaustive) set of substantive hypernorms, it is suggested that decision makers can determine appropriate actions and programmes from these norms, and explore appropriate moral free space within them. This interpretation gives the UN Global Compact a certain dynamic power which is not present if it is merely seen as a voluntary code that confirms a set of static principles. Understood in this way, the UN Global Compact could become a driving force for the design and implementation of effective corporate responsibility programmes, and will be discussed in detail in Chapter 7.

Although Dunfee was circumspect in acknowledging that hypernorms alone may provide guidance to solve ethical dilemmas, it should be acknowledged that this could happen if the hypernorm is merely seen as a point of departure to explore moral free space. From this activity a practical guideline or solution (micro contract) could then be developed, which will apply at the level of the local community.

Consider the following hypothetical example. Company A has decided to become a signatory to the UN Global Compact. Company A has a good reputation for corporate responsibility and wants to be part of the growing community of UN Global Compact signatories. The initial thinking to reach this decision would probably go along the following lines:

- Company A is aware that the UN Global Compact is the largest voluntary corporate responsibility initiative in the world, and wishes to be a part of this growing movement, convinced that a formal association with the UN brand will be good for its reputation.
- Since Company A already considers itself to be a responsible citizen and implicitly supports all the UN Global Compact principles, the impact on the company itself would be minimal. The company could simply continue what it had been doing in any case, and would merely have to ensure that it fulfils the technical requirements.
- The most onerous of these requirements (and the only one that is actively monitored and could lead to delisting) is the need to submit an annual communication on progress (COP). Company A is already preparing a sustainability report according to the Global Reporting Initiative guidelines and can therefore submit its existing report as its COP.

The approach described above is indicative of how many corporations approach their participation in the UN Global Compact. Although it is slightly cynical, there is nothing fundamentally questionable from a moral point of view and in most cases this approach will probably not lead to any problems. It is in line with the first two rungs in Donaldson's ladder of justification: corporate egoism and cooperative egoism (supported by the efficiency hypernorm). But it does not lead to the third rung of citizenship: "The Compact is asking companies to do many things simply because *they are the right thing to do*" (Donaldson, 2003: 71).

If it is assumed that Company A becomes a convert to ISCT and accordingly re-examines its participation in the UN Global Compact, it is likely that Company A will come up with a different approach. This is a thought experiment that captures the essence of the contribution of this study. It answers the question: "To what extent can ISCT support a more nuanced understanding of the UN Global Compact?" The application of ISCT could result in the following approach:

- We support the UN Global Compact because it provides a universal *moral* framework for corporate responsibility. It sets out, eloquently and comprehensively, the moral purpose of business. We believe that the 10 principles are aligned with our own values as a corporation and we regard them as non-negotiable, even if this means that in some cases this might require action that will not be in our own perceived self-interest;
- To prevent the UN Global Compact from becoming a list of empty and vague principles, we will actively investigate moral free space in all the communities and geographical locations where we operate around the globe. We will demonstrate fundamental respect for the 10 principles, but also for local cultures and traditions, and we will implement the principles through micro contracts in such a way that it makes a real and positive difference at the local level – this will involve activities such as collective action, development of internal codes and subscription to voluntary codes; and
- We understand that these activities that we will engage in have to be both authentic (i.e. supported by all our material stakeholders) and legitimate (i.e. in line with the substantive hypernorms of the UN Global Compact and other relevant hypernorms that we might identify).

The two different approaches are summarised in Figure 17.

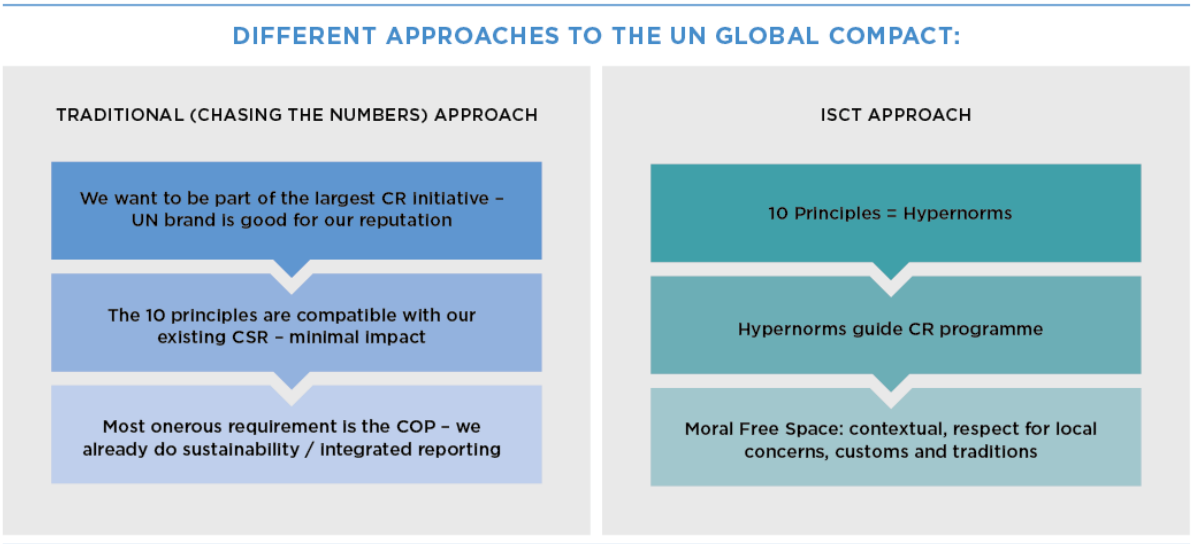

Figure 17: Different approaches to the UN Global Compact

Source: Malan, 2013b

Leisinger (2007) discusses the practical application of the UN Global Compact. Although he does not use the language of ISCT, his focus on local application makes it entirely compatible with the proposed approach. Leisinger suggests that senior management should ask questions that address the following issues: the corporation's main weaknesses and vulnerabilities with regard to the 10 principles, defining a sphere of influence, identifying stakeholders and their expectations, conflict between expectations from civil society and the financial community, and addressing human rights in the context of economic, social and cultural rights (Leisinger, 2007: 8).

In the remainder of this section hypernorms and micro contracts will be examined within the context of the UN Global Compact.

6.2.1 Hypernorms

To investigate the classification of the UN Global Compact principles as substantive hypernorms, it is necessary to look at the evidence required for hypernorms. Secondly, the issue of whether the principles can be regarded as a comprehensive list of hypernorms must be examined.

Even with the exclusion of global industry standards from the required evidence, it is clear that every principle of the UN Global Compact is supported by the other evidence requirements, in particular widespread consensus, support from prominent NGOs, business organisations and professional bodies, as well as consistency with the precepts of major religions and philosophies. Over and above all of these, responsible behaviour by corporations in terms of labour, the environment and anti-corruption is regulated by laws in most countries as well as by international treaties.

If it is accepted that the UN Global Compact principles could be interpreted as a set of hypernorms, one should be careful not to view these principles as the complete and final list of principles that should inform corporate activity. Dunfee (2006: 308) also warns against this: "[T]he search for hypernorms occurs in the context of decision-making, they are not to be fully "discovered" *ex ante.*" However, if the 10 principles are seen as a framework that can coordinate expectations (Hsieh, 2006), this could be dealt with effectively. In the same way that Donaldson and Dunfee refuse to suggest a finite list of hypernorms, because that would constitute moral absolutism (1999: 54), the UN Global Compact should also not be regarded as a finite list that will provide an all-inclusive framework. The fact that the initial nine principles were later supplemented by a 10^{th} principle (on anti-corruption) and the increasing convergence with the ideals of the Millennium Development Goals and proposed successors illustrate this point clearly.

It should be remembered that hypernorms and the hypothetical macro social contract form part of the theoretical part of ISCT. They provide the framework for decision making but – by design – are not geared towards practical application. The environmental principles might be a slight exception in this regard, because principle 8 ("undertake initiatives to promote greater environmental responsibility") and principle 9 ("encourage the development and diffusion of environmentally friendly technologies") have a clear practical approach and could almost be interpreted as recommendations, rather than principles. The implication is that companies which subscribe to the 10 principles and then leave it at that will only provide lip-service to the principles. This was illustrated by a corporation a few years ago when it simply printed the 10 principles in the inside back cover of its annual report[63] and presented this as its communication on progress.

6.2.2 Micro contracts and moral free space

The micro contract is where the rubber hits the road in ISCT. Through empirical research of extant micro contracts – the descriptive part of the theory – more can be learnt about specific communities and the way in which they interact. However, the normative element is ever-present, because if a micro contract is identified that is not compatible with hypernorms, it could – and should – be declared morally out of bounds.

Micro contracts are described as "nonhypothetical, actual (although typically informal) agreements existing within and among industries, national economic systems, corporations, trade associations, and so on" (Donaldson & Dunfee, 1999: 19).

[63] Since the corporation has since improved both its performance and reporting practices dramatically, the writer does not believe it is necessary to identify it by name.

One of the most powerful examples of moral free space is provided by the example of Lévi-Strauss in Bangladesh, discussed by Donaldson. In this case, the corporation discovered that its supplier was using child labour in economically distressed communities where the survival of families depended on the wages earned by children below the minimum legal age. Instead of ending the relationship with the supplier, Lévi-Strauss intervened in the following way: It allowed the supplier to continue employing the children, but only for a few hours per day which allowed them to attend school at the same time. Lévi-Strauss paid the school fees, and the supplier committed to providing full-time employment once the required legal age was reached.

Within the context of the UN Global Compact three different kinds of micro contracts will be examined: the local network structure of the UN Global Compact, collective action initiatives, and individual company behaviour based on codes of conduct. It should be emphasised that – with the exception of local networks – these micro contracts are not specific to the UN Global Compact. Another example of micro contracts that will only be addressed in the next chapter is the broader issue of voluntary standards. There are many standards of governance, management and reporting that have been developed, both globally and locally. Subscription to these standards, or participation in their development, can also be viewed from a micro contract perspective.

Micro contracts are not always based on moral free space. It is suggested that a distinction be made between strong micro contracts (such as the Lévi-Strauss example), where clear evidence exists that moral free space has been explored in order to develop a micro contract that is based on legitimate and authentic norms, and weak micro contracts, where there is a reliance on the lowest common denominator, e.g. a mere reference to the hypernorm. To rephrase the central premise of this study, the expectation is that most micro contracts within the context of the UN Global Compact in a South African environment would be examples of weak micro contracts.

The issue of explicit conflict beween micro contracts and the macrosocial contract should also be raised. Donaldson and Dunfee (1999: 21) make it clear that not all micro contracts are legitimate. For example, the residents of a particular neighbourhood cannot decide to reserve the neighbourhood for members of a particular race, because even if all the residents agree, the micro contract itself will be in contradiction of a hypernorm and therefore not legitimate. It is not clear how conflict would be resolved when more fundamental differences in perspective are involved, for example to analyse the position of women in a country like Saudi Arabia from a non-Western perspective. Given the assumptions made at the outset of this study, a resolution will not be attempted here.

The issue of causality is often used as a critique of the UN Global Compact, and points to the difficulty of measurement. Critics ask the following question: How can you prove that the behaviour of a UN

Global Compact signatory can be linked to the fact that it is a signatory? This is a valid question, and of course there are countless examples of best practice that come from corporations which are not signatories. But this question misses the point in terms of the bigger objective, which is to shift the mindset about the purpose of business. Although the UN Global Compact can facilitate this process and has many advantages that have already been mentioned (e.g. convening power, legitimacy), nothing prevents companies from achieving admirable results without being a part of the initiative.

This might also have implications for the measurement of success. Because the UN Global Compact describes itself as a strategic platform, measurement in terms of the number of participants does not make much sense. It is therefore encouraging to see that the campaign to achieve 20 000 members by 2020, which was promoted a few years ago, has seemingly disappeared. Emphasising the value of the strategic platform and not claiming direct credit for impact will not only be more accurate and a more humble approach, but will also pull the rug from under the feet of many of the initiative's detractors.

Because this part of the discussion focuses on the descriptive (empirical) part of ISCT, it should be mentioned that very few, if any, micro contracts will ever describe themselves as such. This is to be expected and does not diminish, in any way, the usefulness of applying ISCT to existing initiatives.

6.2.3 Local networks

Local networks are clusters of participants in the UN Global Compact who come together within different national, cultural and language contexts. Their role is to assist corporations in implementing the 10 principles, but also to initiate multi-stakeholder engagement and collective action.[64]

In 2014 there were 102 local networks within the UN Global Compact. Local networks can be viewed as examples of micro contracts within the context of the UN Global Compact. There is clear alignment with a set of hypernorms (all 10 UN Global Compact principles), as well as a specific commitment to a particular context (e.g. country, region or language).

Within the UN Global Compact, the local networks play a dual role. Firstly, they assist with scaling up the activities of the initiative by providing on-the-ground support in various locations; and, secondly, they provide a bridge between the global initiative and its local implementation (United Nations Global Compact, 2014: 7). The second point is a clear reference to the importance of micro contracts within the UN Global Compact.

Since 2007, the National Business Initiative (NBI) has acted as the focal point of the UN Global Compact Local Network South Africa. The South African network has focused on the following issues: social

[64] http://www.unglobalcompact.org/NetworksAroundTheWorld/index.html, accessed 18 August 2013.

issues, including human rights; anti-corruption; and initial work to support companies in fulfilling their obligations under the Social and Ethics Committee requirements of the Companies Act.[65]

The most important challenge for local networks lies in the governance structure of the UN Global Compact. This is because the networks are viewed as structures that have to mirror the role of the Global Compact Office, yet have to remain accountable to local stakeholders (United Nations Global Compact, 2008). As discussed previously, a governance structure where the local networks are viewed as subsidiaries of the UN Global Compact might be best suited to strengthen these micro contracts (in the language of ISCT) or local compacts (in the language of the UN Global Compact).

Rieth, Zimmer, Hamann and Hanks (2007) provide an insightful discussion on how a decentralised model (e.g. regional offices and local networks) can improve the effectiveness of the UN Global Compact. The authors discuss this from two different perspectives (Rieth *et al*., 2007: 103). In terms of the rationalist approach, collaboration will increase efficiency and also lead to time and cost savings. In terms of the sociological approach, which is aligned with the social contract approach, localisation and adaptation of global norms to local context will lead to more efficiency. Rieth *et al*. (2007: 104) argue that it is difficult to assess the impact at the local level, because, among other reasons, it is not possible to tell whether activities were really driven by the UN Global Compact or whether they were merely 're-labelling' exercises . According to these authors, the global impact has been positive as a result of the UN Global Compact's ability to contribute to agenda-setting and to changing the tone of the globalisation debate (Rieth *et al*., 2007: 104).

6.2.4 Collective action

The concept of collective action is synonymous with the work of the Nobel Prize winner, Elinor Ostrom. Collective action, in its classical sense, refers to collective decisions taken by stakeholders in the use or distribution of common resources, e.g. how to distribute irrigation rights. This type of action is informed by game theory, where individual actors can become free riders through not contributing or grabbing more of the resource than is allowed in terms of an agreement. In game theory, if one player cheats but all the others contribute, he or she would gain.

However, the use of collective action in a corporate context often seems to have a weaker meaning – that of partnership. In a partnership, individual actors (e.g. a corporation, a non-profit organisation and a regulator) get together, quite often bringing different skills to the table in order to cooperate to achieve a common goal. Because such partnerships develop on the basis of common interests and the

[65] http://www.nbi.org.za/Focus%20Area/RoleOfBusinessInSociety/Pages/UNGC-SA-Signatories.aspx, accessed 1 December 2014.

ability to make different contributions, the problem of free riders seems to be less important in this context.

Selsky and Parker (2005) discuss the notion of cross-sector partnerships to address social issues. In their review of the literature, they identify a variety of terms used to describe such partnerships: social partnerships, intersectoral partnerships, social alliances, issues management alliances and strategic partnerships (Selsky & Parker, 2005: 850).

Ostrom (2000: 137) makes the point that observations in everyday life contradict the zero contribution thesis, i.e. the expectation that rational, self-interested individuals will not act to achieve their common or group interests. She also points out that field research confirms that the temptation to free ride is a universal problem, but that "in all known self-organized resource governance regimes that have survived for multiple generations, participants invest resources in monitoring and sanctioning the actions of each other so as to reduce the probability of free riding" (Ostrom, 2000: 138). In her discussion of the evolution of rules and norms in the field, the following consistent findings from empirical research are discussed (Ostrom, 2000: 148-149):

- When users of a resource organise themselves to devise the basic rules, resources are managed more sustainably than when rules are imposed from the outside; and
- The presence of a leader or entrepreneur, who can articulate different ways of organising to improve joint outcomes, often provides an important initial stimulus.

In terms of design principles that can help to increase the chances of success for collective action, the following are mentioned (Ostrom, 2000: 149-151):

- Clear boundary rules enable participants to know who is in and who is out – there is therefore a clear set of relationships;
- Benefits proportional to required inputs should be allocated and local conditions should be taken into account;
- Most of the individuals who are affected should participate in making and modifying the rules;
- Users should select their own monitors to ensure accountability; and
- Sanctions should be graduated on the basis of the seriousness and context of the offence.

The alignment with ISCT is remarkable. The application of moral free space is implicit both in terms of determining benefits and sanctions based on local conditions and context, and the importance of those who are affected by the rules to make the rules (micro contracts).

Ostrom (2000: 151) summarises her position as follows:

When the users of a resource design their own rules that are enforced by local users or accountable to them, using graduated sanctions that define who has rights to withdraw from the resource and that effectively assign costs proportionate to benefits, collective action and monitoring problems are solved in a reinforcing manner.

When the resources to be managed become larger and more complex, there is also the need for the introduction of governance in "multiple layers of nested enterprises" (Ostrom, 2000: 152).

It was mentioned that the concept of collective action is used somewhat more loosely in a corporate environment.[66] One such example is provided by Siemens, which partnered with the UN Global Compact on a few of its collective action initiatives.

6.2.4.1 Siemens Integrity Initiative

The Siemens Integrity Initiative has a significant origin, which might not be immediately obvious if one reads Siemens' own explanation: "On July 2, 2009, the World Bank Group announced a comprehensive settlement with Siemens. As part of the settlement, Siemens agreed to co-operate to change industry practices, clean up procurement practices and engage in Collective Action with the World Bank Group to fight fraud and corruption."[67] The World Bank settlement comprised a commitment to spend $100 million in pursuit of these goals over a period of 15 years. A similar settlement with the European Investment Bank, valued at €13,5 million, is also described.

A statement by the World Bank provides a little more information:[68]

The World Bank Group today announced a comprehensive settlement with Siemens AG in the wake of the company's acknowledged past misconduct in its global business and a World Bank investigation into corruption in a project in Russia involving a Siemens subsidiary. The settlement includes a commitment by Siemens to pay $100 million over the next 15 years to support anti-corruption work, an agreement of up to a four-year debarment for Siemens' Russian subsidiary, and a voluntary two-year shut-out from bidding on Bank business for Siemens AG and all of its consolidated subsidiaries and affiliates.

[66] At a UN Global Compact event on anti-corruption that took place in New York (10 December 2014), participants in a working group on collective action identified the following requirements for successful collective action: the goals must be achievable, the issue must be material, there must be an opportunity to create scale, and the collective action should be sufficiently focused. Fear and uncertainty, as well as apathy, were identified as some of the biggest stumbling blocks.

[67] http://www.siemens.com/about/sustainability/en/core-topics/collective-action/integrity-initiative/key-information-on-siemens-integrity-initiative.htm, accessed 2 December 2014.

[68] http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22234573~pagePK:34370~piPK:34424~theSitePK:4607,00.html, accessed 2 December 2014.

Similarly, the statement issued by the European Investment Bank sheds more light:[69]

> *The European Investment Bank (EIB) and Siemens have entered into a Settlement Agreement that addresses alleged past violations of the EIB Anti-Fraud Policy in connection with projects financed by the EIB. The Agreement follows an investigation carried by the EIB with the support of the Siemens Group and OLAF on the past conduct of a Siemens' business unit in relation to a tender process.*

Regardless of the background, the purpose of collective action is described well by Siemens. The corporation argues that widespread and deep-rooted corruption is a problem that affects society in general, and therefore it is unlikely that individual activities by governments, their procurement entities or the private sector can address the problem in isolation. The purpose of collective action is to bring different interest groups together so that that an alliance can address the problem from multiple angles.

The collective action initiated by Siemens comprises integrity pacts, sector-wide codes of conduct and long-term initiatives.[70] Integrity pacts, developed by Transparency International, aim to guarantee transparency in the awarding of contracts. How it works in practice is that bidding companies sign a legally binding document upfront in which they commit themselves to behave with integrity during the tender process. Breaches result in sanctions which could exclude the company from future invitations to tender. The entire process is supervised by an independent monitor.

Sector-wide codes of conduct are self-descriptive. Such codes can be either principle-based or legally binding, depending on the content and the process that was followed.

Long-term initiatives involve collaboration between governments, corporations and civil society, to create awareness among politicians and the general public. These initiatives set out the conditions for other [plans/arrangements?] such as integrity pacts to come to fruition.

The UN Global Compact initiatives supported by the Siemens Integrity Initiative[71] are (Siemens AG, 2013: 24-90):

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[69] http://www.eib.org/infocentre/press/news/all/eib-and-siemens-settlement-agreement.htm, accessed 2 December 2014.

[70] http://www.siemens.com/about/sustainability/en/core-topics/collective-action/our-approach.htm, accessed 2 December 2014.

[71] Additional initiatives supported by the Siemens Integrity Initiative are (Siemens AG, 2013: 24-90): The Basel Institute on Governance which supported the development of industry-specific standards, such as the Wolfsberg Anti-Money Laundering Principles; the Beijing New Century Academy on Transnational Corporations which works to improve compliance among Chinese companies; the European Coordination Committee of the Radiological, Electromedical and Healthcare IT Industry which reviewed and expanded its code of conduct; Business Action against Corruption (BAAC) in Nigeria which aims to improve corporate governance and reduce corruption through collective action – it does this through collaboration with the central bank, the stock exchange and corporations; and the Ethics Institute of South Africa which aims to assist African business networks with the implementation of anti-corruption initiatives and good governance practices. The Siemens Integrity Initiative has been implemented in Angola through collective action and in South Africa (at the municipal level) and

- The United Nations Principles for Responsible Management Education created an anti-corruption working group that developed anti-corruption guidelines for curriculum change in business education;[72] and
- The UN Global Compact launched and implemented an anti-corruption collective action initiative in five countries (Brazil, Egypt, India, Nigeria and South Africa) through Global Compact Local Networks. In South Africa there has been a focus on training, integrity pacts in the construction sector and the establishment of a CEO round table on anti-corruption.

6.2.4.2 The Africa Initiative

The UN Global Compact has launched an Africa-specific work stream that will focus on implementing and overseeing a long-term strategy for the UN Global Compact in sub-Saharan Africa. The work stream will focus on three goals (United Nations Global Compact, 2014: 3): addressing basic infrastructure needs, raising awareness of the UN Global Compact on the continent and strategically engaging a larger number of companies and countries.

Over the last decade, Africa has managed to rid itself of the image of being a global liability and a continent that features on the global agenda mainly in terms of humanitarian aid or debt relief. To a large extent, Africa has repositioned itself as a continent of hope – one with enormous resources which present growth opportunities not only for itself, but also for the rest of the world. In terms of its population, Africa is the world's most youthful continent, with 65 per cent of its more than 1 billion people under the age of 35. In 2013, 40 African countries were involved in either exploration or production of minerals, oil and gas, and Africa was home to seven of the 10 fastest growing economies in the world.[73]

Unfortunately the picture is not all positive. Fifty-two million people in Africa engage in some form of self-employment or 'vulnerable' employment, such as subsistence farming or urban street hawking (McKinsey Global Institute, 2012: 3). Only 24 per cent of Africans have access to electricity according to the World Bank.[74] Africa is also not immune to global risks: conflict, climate change and corruption seem to be particularly relevant to Africa. In the 2013 and 2014 Transparency International Corruption Perceptions Indices, the majority of all sub-Saharan African countries obtained a score of less than 50, which indicates endemic corruption, according to Transparency International.[75]

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the Ethos Institute for Business and Social Responsibility (Brazil) developed collective action, social monitoring and control mechanisms for the 2014 World Cup and the 2016 Olympic Games.

[72] The writer is a member of this working group.

[73] http://www.weforum.org/content/global-agenda-council-africa-2012-2013, accessed 9 May 2013.

[74] http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:21935594~pagePK:146736~piPK:146830~theSitePK:258644,00.html, accessed 4 December 2014.

[75] http://blog.transparency.org/2014/12/03/sub-saharan-africa-corruption-still-hurts-daily-lives/, accessed 4 December 2014.

But the overall sentiment is positive. That has been reflected in the general dictum of "Africa Rising" (words used on the front pages of both *The Economist* and *Time Magazine*), and also featured strongly on the agenda of the World Economic Forum on Africa over the last few years. The successive themes of the last three World Economic Forum on Africa meetings illustrate this clearly: "Shaping Africa's Transformation" (2012), "Delivering on Africa's Promise" (2013) and "Forging Inclusive Growth, Creating Jobs" (2014).

However, the expected outcomes of the Africa Initiative relate purely to growth numbers for the UN Global Compact (aiming for 500 business participants by 2017 and establishing one to two new local networks every year). It is not clear how these outcomes will be linked to the goals mentioned above.

6.2.5 Individual company behaviour

The use of case studies is very popular in the world of business. The 'real life' nature of a case, the fact that it is context-specific without clear right or wrong answers, as well as the open-endedness with many possible solutions combine to make the case study an effective tool to teach theory and to equip managers with the relevant skills.

From a rather unexpected source, the philosophical pragmatism of Richard Rorty also supports this method. Referring to the work of Werhane and Duska – specifically the role of the imagination – Rorty supported the use of narrative in his address to the 2005 annual meeting of the Society for Business Ethics (Rorty, 2006: 377):

> *Instead of discussing definitions of the virtues of candidates for the role of a universally valid principle, business ethicists might do better to think of themselves as social engineers working on site-specific projects. The two most useful tools for such work, I suspect, are narratives, whether historical or fictional, and what Laura Nash calls "context-specific guidelines such as the Sullivan principles".*

Rorty would not have agreed with the concept of hypernorms, but the notions of moral free space and micro contracts are well-aligned with the idea of context-specific guidelines as well as his own view on morality: "Saying that torture is absolutely wrong does nothing to still doubts about whether to save the city by torturing the terrorist. Everybody agrees that it is absolutely wrong to refuse sick children medical help, but nobody agrees on how the doctor's bill is to be paid" (Rorty, 2006: 371).

Historical narratives and context-specific guidelines both provide examples of micro contracts. The next section will present examples of activities carried out by selected corporations in specific contexts.

6.2.5.1 Case studies from Africa

In 2008 an inspirational guide was published on how the UN Global Compact has been implemented in Africa (United Nations Global Compact, 2008). Table 13 lists the participating companies and provides the essence of their activities as described in the guide (United Nations Global Compact, 2008: 5-21).

Table 13: Corporations included in the UN Global Compact Inspirational Guide for Africa

Company	Description of activities
Bathabile Holdings (South Africa)	Involved in the healthcare sector (especially HIV and Aids), the corporation has a very strong local community focus and also has a comprehensive anti-corruption programme in place.
Standard Chartered Bank (Zambia)	This bank is involved in collective action with local government and the Swiss Tropical Institute in the fight against malaria, with specific emphasis on the distribution of mosquito nets. The distribution methodology is based on an understanding of local values.
Mcel (Mozambique)	In partnership with local communities, the corporation promotes its technology as a means to support the increased productivity of small businesses, mostly through disseminating technology and training for business start-ups.
Deloitte and Touche (South Africa)	In partnership with many other organisations, this company is involved in a range of initiatives aimed at skills development with specific reference to the accounting industry, but also in IT and a more general focus on leadership development.
Sasol (South Africa)	This company's focus is on skills development to address the shortage in South Africa, especially of skilled artisans. Interventions have been integrated with corporate social responsibility activities and are multi-pronged (both internal training and partnerships with government and others) to grow talent pools and develop critical skills.
Apex (Côte D'Ivoire)	As the export promotion agency of the country, Apex is involved in addressing child labour issues, and acts as an interface between the government officials and the cocoa supply chain, as well as the world chocolate industry.
Rand Water (South Africa)	The corporation is 92 per cent unionized and the focus is on labour related issues: collective bargaining, dispute resolution and an essential services agreement. Of particular interest is an example of collective action, the Participation, Cooperation and Partnership (PCP) Forum, a body that ensures that all stakeholders participate in decision-making processes. The PCP comprises three layers: stakeholder forums, site forums and workplace meetings.
Simat (Côte D'Ivoire)	The corporation has a special programme in place to empower women.
Nedbank Group (South Africa)	As one of the major banks in South Africa, Nedbank operates in a well-regulated environment, including anti-money-laundering legislation. However, this is not the case in other jurisdictions where the bank operates, which creates a big risk. The bank therefore decided to spread the group's minimum standards to its other operations in Africa.

Company	Description of activities
Medine Sugar Estates Co. Ltd (Mauritius)	The corporation operates in the poorest part of Mauritius, where there are many problems associated with drugs, alcohol, teenage pregnancy, school drop-outs, etc. Medine contracted a team of town planners, architects and sociologists to assess the profile and potential of the region. Certain interventions resulted: training, creation of a social hub (leisure park, farmers' market, creativity centre), support for community development projects, and the provision of micro-credit facilities.
Eramedic (Morocco)	The corporation launched a multi-faceted campaign to inform stakeholders of the environmental dangers associated with the irresponsible disposal of medical waste. The corporation also installed advanced machines that treat medical waste so that it can be disposed safely as ordinary municipal waste.
Floribis/IBIS (Madagascar)	The corporation aims to energise the local economy by creating jobs linked to marine resources, with specific emphasis on an algae culture project, and to get its employees and suppliers to commit to the protection of the environment.
Nestlé (Côte D'Ivoire)	Nestlé initiated a partnership to support the development of small farmers, while at the same time addressing internal supply chain issues. The corporation partnered with the Ivorian and German governments in a project to help 800 small-scale farmers (700 of them are women) to sustain their annual production and revenues through a series of technical practices that will increase both yield and quality, but reduce environmental impact.
Mozambique International Port Services (Mozambique)	Framed by the UN Global Compact, the corporation has developed a series of HR policies in the areas of health and safety, with a particular focus on HIV and Aids. It has also created community outreach programmes in the areas of education, arts, culture, the disabled, orphaned children, and the elderly.
Bank PHB (Nigeria)	The corporation runs various youth development and employee volunteer schemes as part of its corporate citizenship programme. It has engaged in collective action with partners, contractors, consultants and suppliers because it believes that involvement in corporate citizenship is directly proportional to its success as a financial institution.
Oceanic Bank International plc (Nigeria)	The corporation believes that high levels of investments in education lay the groundwork for private sector growth, and has partnered with schools and universities to support educational activities, with a specific emphasis on the development of entrepreneurs.
Millennium bim (Mozambique)	Millennium bim partnered with the local taxi association to address the problem of a poorly maintained and unprofitable taxi fleet. The corporation assisted the association to negotiate better prices for new taxis and developed a leasing scheme. In return, advertising space on the taxis was awarded. Taxis have become more profitable, therefore lease payments are made on time. The taxi association has grown as a result of the initiative, and transport is safer and more comfortable.

The selected examples are diverse and demonstrate different stages of corporate responsibility. While there are some examples of philanthropic contributions (e.g. contributing to the fight against malaria), the majority illustrate a clear understanding of how these initiatives will have either a direct or indirect impact on business success. Of course, even the fight against malaria will result in a healthier workforce which will have a positive impact on the corporation involved. In most cases there is evidence of collective action through partnerships with other stakeholders, as well as an understanding of local conditions and the need to design and implement programmes that will address local needs within the framework of a global commitment. Examples such as Nestlé and Nedbank illustrate a direct link between an initiative and the financial bottom line. In other cases, like Medine and Millennium bim, there is a contribution towards broader societal issues that – when resolved – will result in improved trading conditions. Perhaps the most useful example from an ISCT perspective is Nedbank. Through a decision that the bank's minimum standards in terms of money laundering will apply in all jurisdictions, a clear decision was made that the hypernorm (anti-corruption) will override the potential for moral free space at the local level.

6.3 An analysis of South African Communications on Progress

The UN Global Compact rule in terms of an initial communication on progress (COP) requires new participants to submit their first COP one year after joining the initiative, and thereafter on an annual basis.[76]

The way in which the COP system is administered – specifically with regard to the threat of expulsion for non-delivery – has created the impression among some stakeholders that the UN Global Compact is a compliance-based system. Although the COP system is there to provide some consistency and accountability, it should not be viewed as a compliance-based initiative. In the words of Georg Kell, executive director of the UN Global Compact:[77]

> *The Compact never pretended to [be a compliance-based institution], nor was it designed as one. The fact that some observers continue to criticize the Compact for something it never pretended to be is remarkable. Ever since the inaugural launch on 26 July 2000, we have been very clear that the Compact is about learning, dialogue and partnerships. The UN does not endorse companies or their performance. Rather, it seeks to promote collaborative efforts, transparency and public accountability.*

The secondary research question posed in this dissertation is:

[76] https://www.unglobalcompact.org/COP/cop_deadlines.html, accessed 23 November 2014. Previously, signatories were given two years to submit their first COP.
[77] http://www.ethicalcorp.com/content.asp?ContentID=5898&newsletter=24, accessed 13 May 2008.

- To what extent – with reference to ISCT – do South African corporations that are active participants in the UN Global Compact take local conditions into account when implementing and communicating on the 10 principles of the UN Global Compact?

Implicit in this question is an examination of the ability of corporations to translate a macro contract (the 10 principles) into micro contracts.

To answer this question, the COPs of all active South African corporations (taking into account the most recent submissions until 28 February 2013) were assessed by looking at the following categories:

- An assessment of the general approach to corporate responsibility, based on an analysis of communications on progress and CEO statements;
- Coverage of main UN Global Compact components, with a specific focus on the global/local debate, collective action, and the ISCT concept of moral free space; and
- A detailed assessment of the coverage of anti-corruption reporting, based on guidance provided by Transparency International and the UN Global Compact (Reporting Guidance on the 10th Principle against Corruption).

All the relevant COPs were downloaded from the UN Global Compact web site, and submitted to close textual analysis based on categories that included the CEO statement, issue areas covered, measurement of outcome, company position in terms of corporate responsibility and the acknowledgement of global and local complexities. Specific attention was also given to examples of collective action. The questionnaire that was used is included as Appendix C. The results were captured in an Excel spreadsheet and are presented and discussed in this chapter.

The corporations that were included in the analysis are: Altron, AngloGold Ashanti, Barloworld, Coca-Cola Sabco, Deloitte, Edcon, Eskom, Exxaro, FirstRand, Gold Fields, Impala Platinum, Mondi, Nedbank, Pick n Pay, Richards Bay Coal Terminal, Sanlam, Sappi, Sasol and Unilever.[78] These 19 corporations represent the total population of South African corporations that were active in the UN Global Compact at the time of writing.[79]

The purpose of this exercise was to analyse the level of public reporting in the areas of human rights, labour, environment, and corruption. There were some instances where companies either provided a Global Reporting Initiative (GRI) table or links to external websites in their COP submission, referencing sources not uploaded on the UN Global Compact website. In these cases, the external sources were also included in the assessment.

[78] For this section, the valuable assistance of a research assistant, Roan Snyman, is acknowledged.

[79] Although the name of the Public Investment Corporation also appeared on the list of active signatories at the time, there was only a placeholder COP available and therefore it was excluded from the analysis.

There was some interpretation involved in the application of the indicators. As expected, it was a difficult task to measure the qualitative value of certain statements. Companies tend to have markedly different strategies for addressing the different areas. For environment, many companies will have a business centred strategy, given that improvements in energy efficiency will have financial benefits. For human rights, such as the prohibition of child labour, it is more likely that companies will approach these issues from a moral perspective.

In general, corporations tended to focus on universal values and commitments with less emphasis on local flexibility. Companies did, however, place great emphasis on compliance with local legislation. One can see this in the South African context with specific commitments to labour laws and Black Economic Empowerment obligations. Hamann, Agbazue, Kapelus and Hein (2005) discuss the challenges that are specific to South Africa with regard to universal corporate governance standards. They mention the historical legacy of poverty and inequality, distrust of corporations, and accusations of 'greenwashing', the existence of homegrown and disparate conceptions of CSR, the role of the state, and specific issues related to small and medium enterprises as some of the South African peculiarities and complexities that demonstrate how difficult it is for a global standard to add value at the local level (Hamann *et al*., 2005: 3). Although their discussion is aimed specifically at the International Organization for Standardization (ISO), it can also be applied to concerns about the UN Global Compact (Hamann *et al*., 2005: 16):

> *There is the danger that the new ISO CSR standard will contribute to an emphasis on a formalized set of universal norms and practices that represent the lowest common denominator in the international debate. The true test for the standard will not only be its ability and flexibility in allowing for the innovation, creativity, and responsiveness necessary to meet national or local challenges and priorities, but to actively encourage such context-specific approaches to CSR.*

It was found that in cases where the COP was submitted as a standalone document, CEO statements tended to be very short with almost no information. In these cases the introductory statements of the COP itself were assessed together with the CEO statement. In instances where a sustainability report or an annual integrated report was submitted as the COP, there were usually extensive statements from the CEO.

In terms of the secondary research question, the initial premise that limited localisation practices would be found, was confirmed, and will be discussed in detail below.[80] For example, 70 per cent of

[80] This discussion should also be viewed within the broader context of corporate responsibility behaviour in emerging markets. For a detailed discussion of this issue, see Hall (2007).

reports focused mainly on global issues, 70 per cent of reports provided either isolated or no examples of collective action, and 85 per cent of reports provided either isolated or no examples of moral free space.

6.3.1 Description of study population

In general, the 19 active South African corporations have been involved with the UN Global Compact for a substantial amount of time. Almost 80 per cent of the South African signatories have been participants for more than five years, with none of them for less than 1 year. The results are displayed in Figure 18.

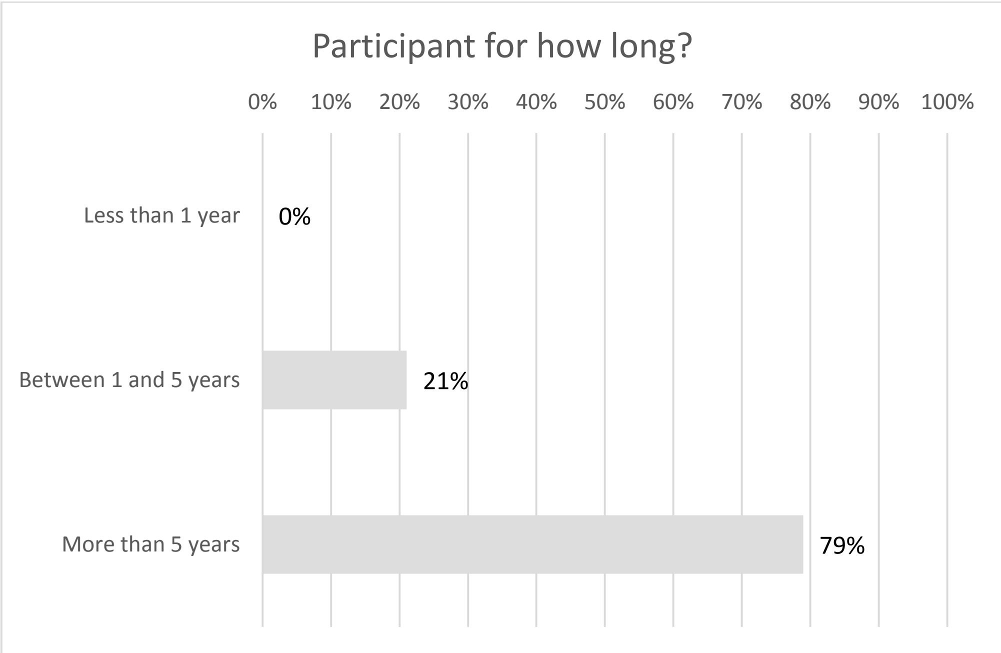

Figure 18: Length of participation in the UN Global Compact

As mentioned before, the UN Global Compact makes a distinction between three different levels: learner, active and advanced. The differentiation programme[81] is based on a self-assessment in terms of the levels of disclosure as well as the implementation of the 10 principles, as indicated in Figure 19.

[81] https://www.unglobalcompact.org/COP/differentiation_programme.html, accessed 25 November 2014.

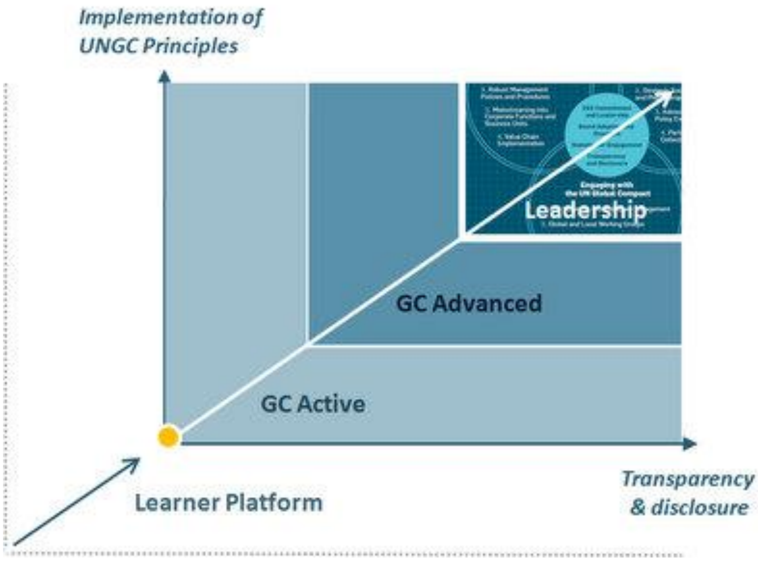

Figure 19: UN Global Compact differentiation levels

Source: www.unglobalcompact.org

Sixty-eight per cent of the South African corporations indicated that they were at the active level. The active level is reserved for participants that fulfil all the minimum COP requirements, including addressing all four issue areas and communicating directly with stakeholders.[82]

Twenty-one per cent of the assessed corporations indicated that they were at the advanced level, which is reserved for corporations that strive to be top performers. These corporations declare that they have adopted and report on best practices in sustainability governance and management, with specific reference to some of the UN Global Compact initiatives, such as the Blueprint for Corporate Sustainability Leadership and the UN Global Compact Management Model.

The corporations which indicated that they had reached this level are: Unilever, Sasol, Mondi and Eskom.

[82] https://www.unglobalcompact.org/COP/differentiation_programme.html, accessed 25 November 2014.

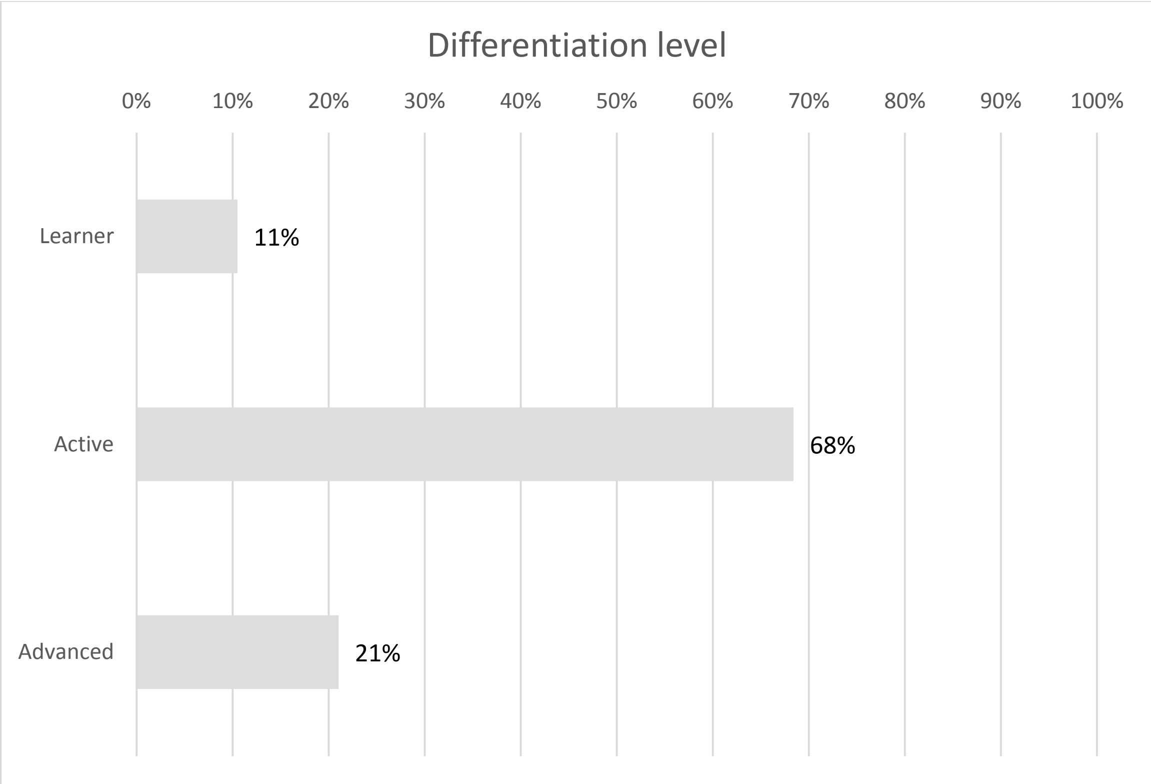

Figure 20: Differentiation level

In terms of organisation type, public companies dominate the South African sample (63 per cent), followed by private companies (26 per cent) and one subsidiary (Unilever) and one state-owned company (Eskom).

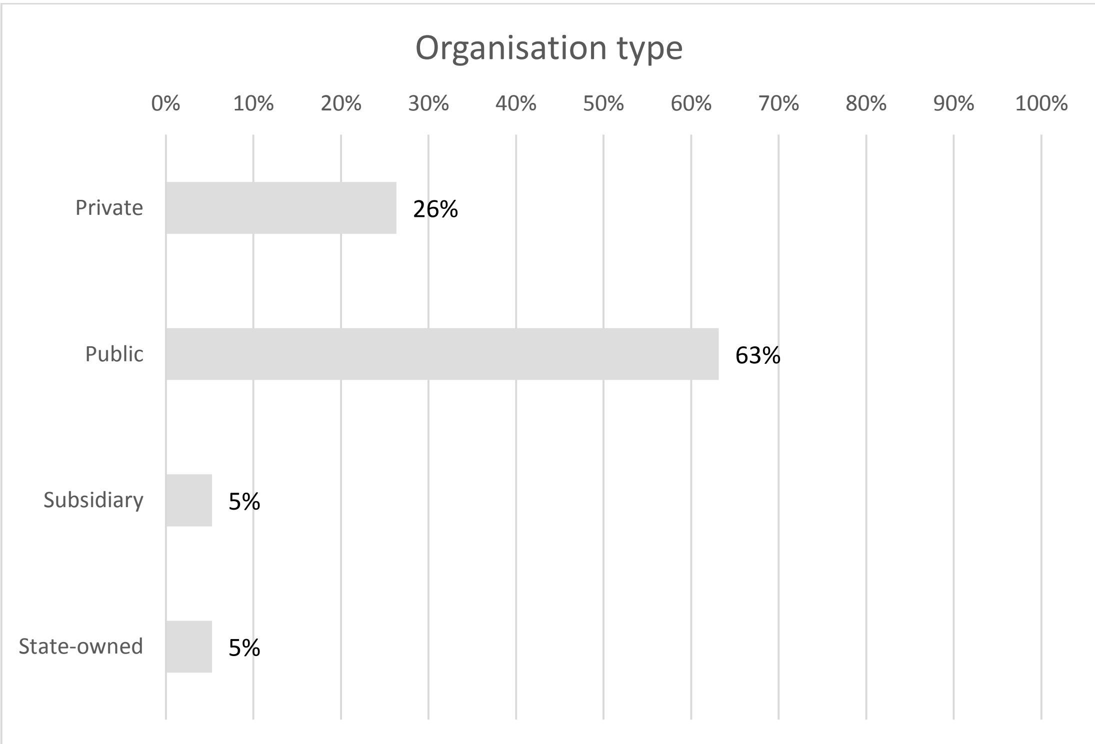

Figure 21: Organisation type

Large corporations dominate the sample, with 74 per cent having more than 10 000 employees, and 63 per cent having had a turnover of more than $5 billion in the last financial year. Summaries are displayed in Figure 22 and Figure 23.

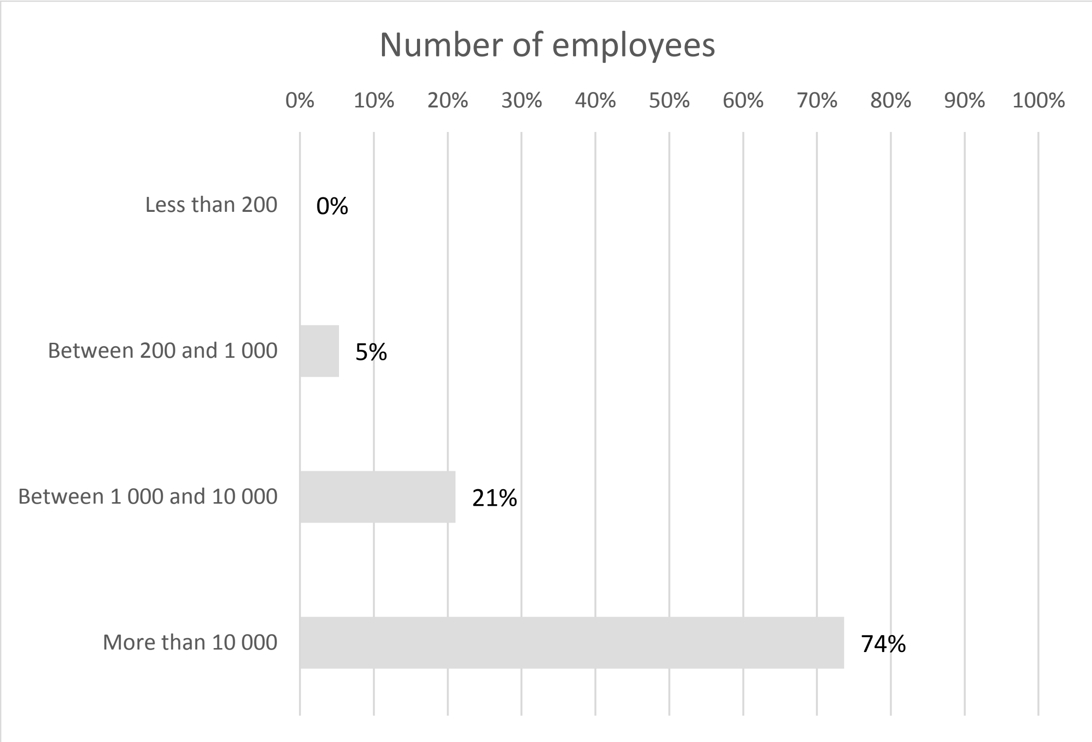

Figure 22: Number of employees

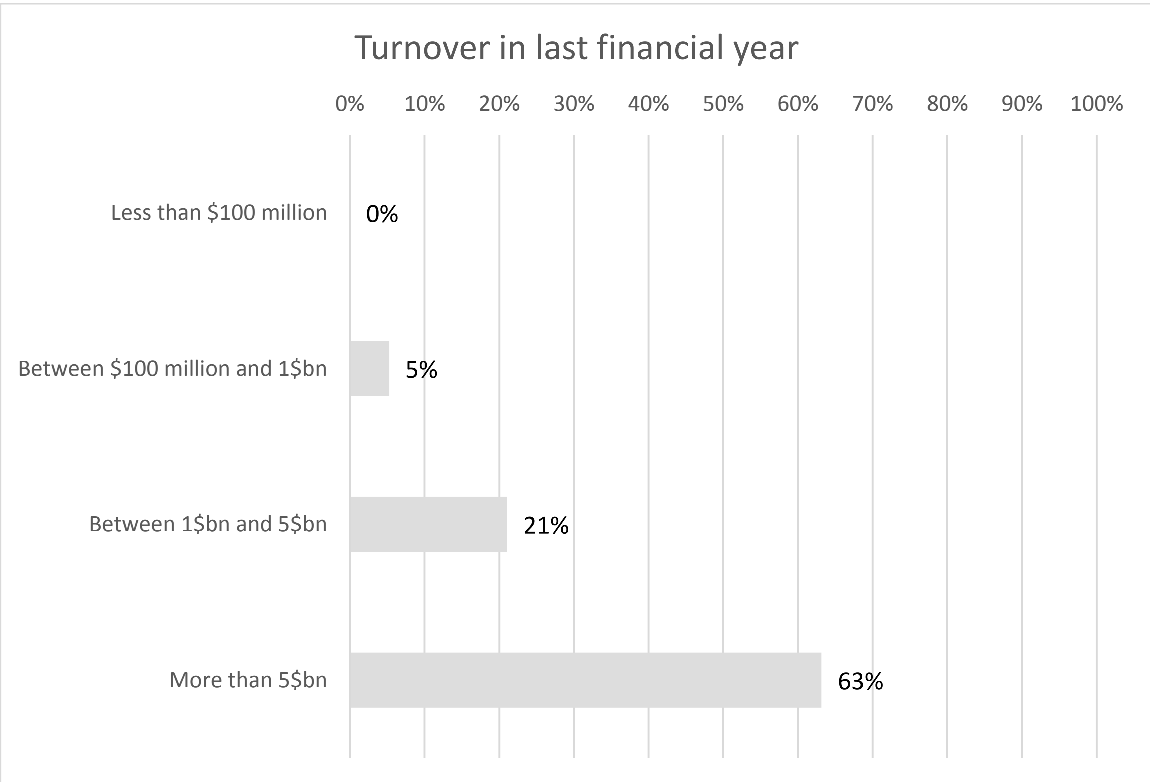

Figure 23: Turnover in last financial year (US$ billion)

6.3.2 Results

One of the few elements assessed by the UN Global Compact itself is whether the CEO statement is acceptable. This relates to the statement of continued support for the UN Global Compact and renewing the commitment to the initiative and its principles. Ninety-five per cent of all companies received the thumbs up in this regard, with Exxaro being the only exception.

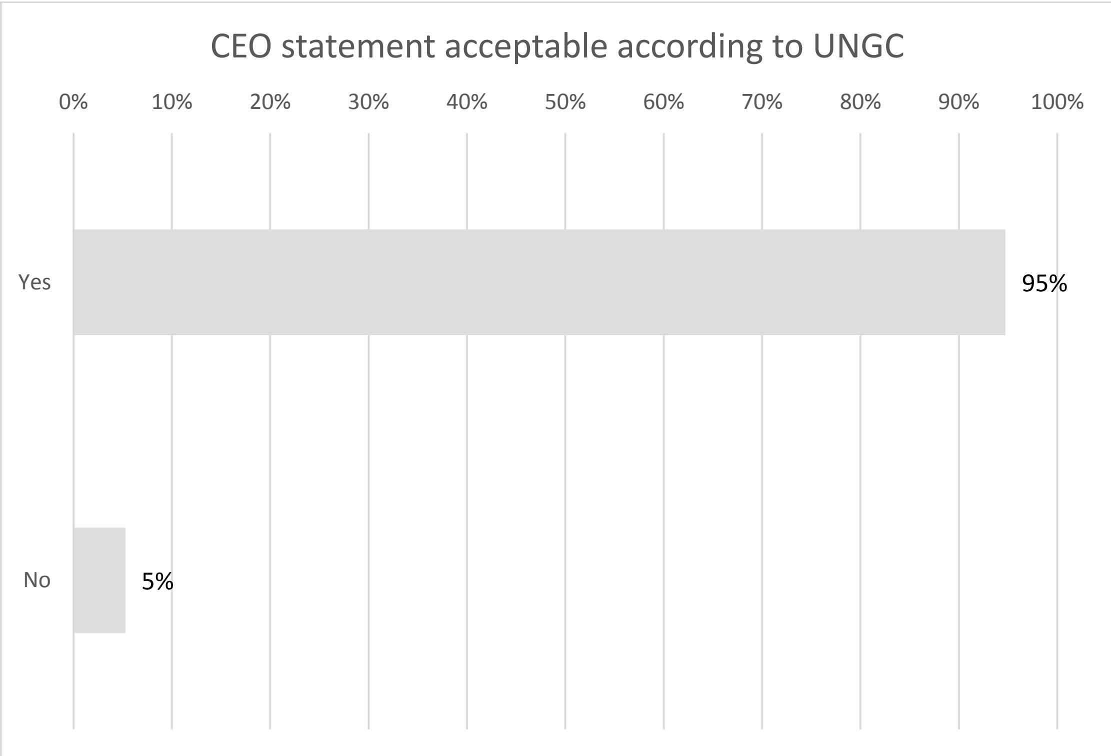

Figure 24: Status of CEO statement (acceptable according to UN Global Compact)

As can be seen in Figure 25, all corporations covered at least three of the four issues areas (human rights, labour, environment and corruption). Seventy-nine per cent of corporations covered all four areas.

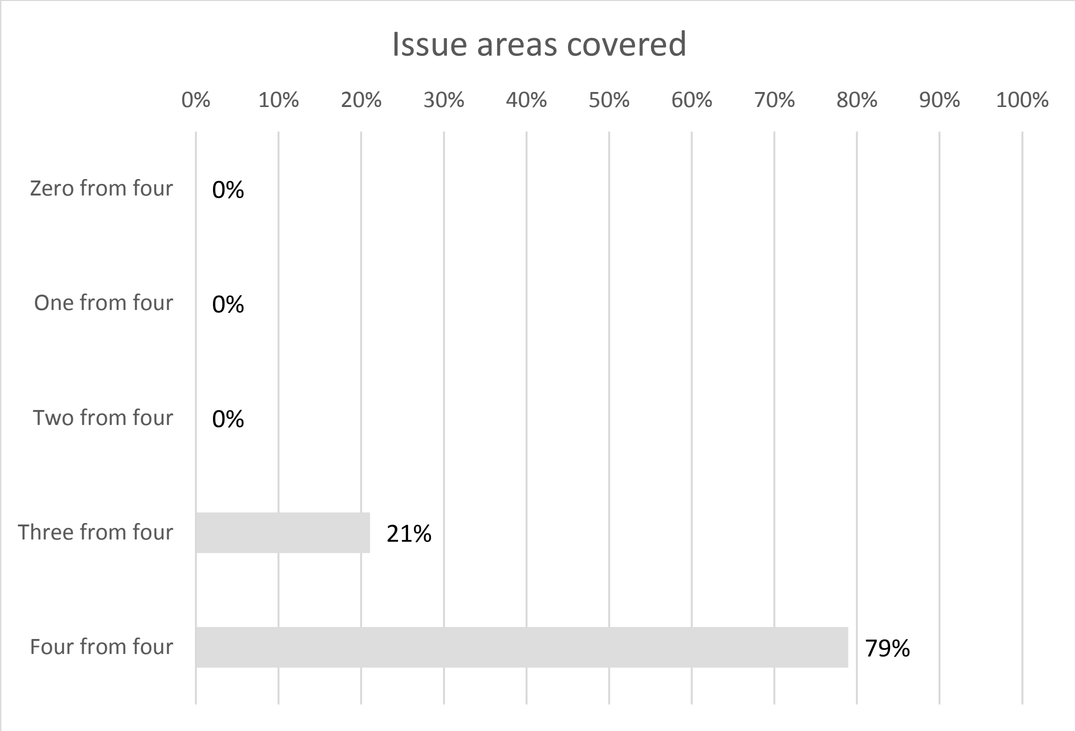

Figure 25: Issue areas covered

In terms of measurement of outcomes (including qualitative and quantitative measurements), only one corporation (Altron) did not make the grade (see Figure 26).

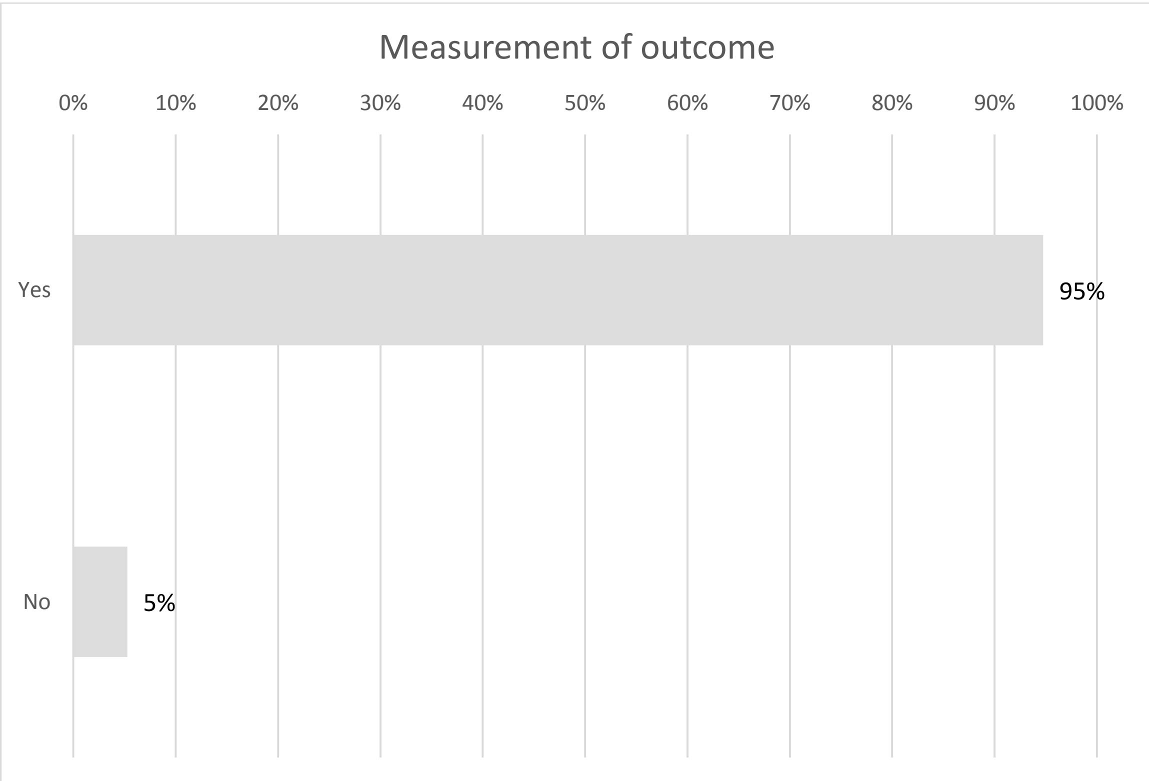

Figure 26: Measurement of outcome

The corporations' general approach to corporate responsibility was analysed according to the following scale:

- Very strong business case; almost no mention of moral case
- Mix of business case and moral case; an emphasis on business case
- Mix of business case and moral case; an emphasis on moral case
- Very strong emphasis on moral case; almost no mention of business case

Figure 27 illustrates that the vast majority of companies used the business case to motivate their support for corporate responsibility. This assessment was done based both on the CEO statement and the COP. The one exception to this was Exxaro, which was deemed to place a very strong emphasis on the moral case. Exxaro explained its support for the UN Global Compact as a "logical progression in our ongoing commitment to sustainability, given our shared goals and focus on universal values".[83]

The corporations that were deemed to focus most strongly on the business case, are Altron, Eskom, FirstRand and Sappi.

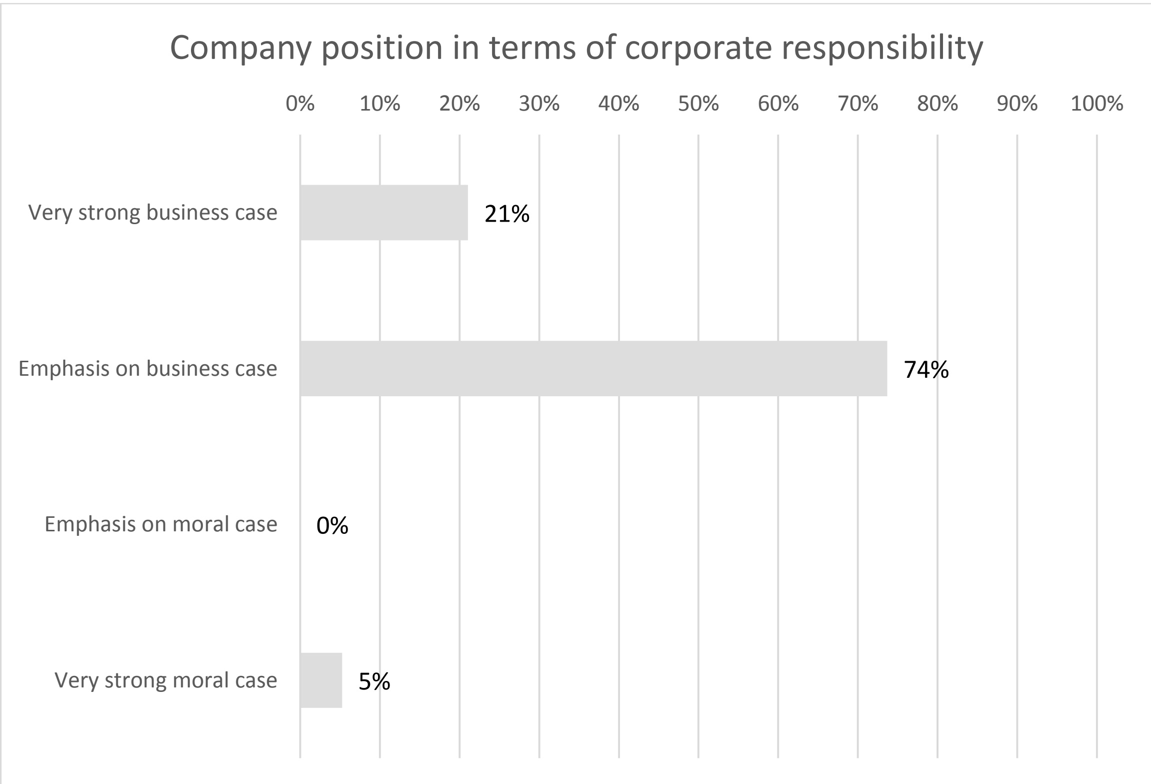

Figure 27: Corporate preference for business case or moral case

The acknowledgement of global and local complexities was measured as follows:

- Very strong emphasis on global/universal values; little or no room for local flexibility

[83] Exxaro 2012 COP, page 1.

- Strong emphasis on global/universal values; clear acknowledgement of need for local flexibility
- Strong emphasis on need for local flexibility; clear acknowledgement of global/universal values
- Very strong emphasis on need for local flexibility; little or no acknowledgement of global/universal values

The results are displayed in Figure 28.

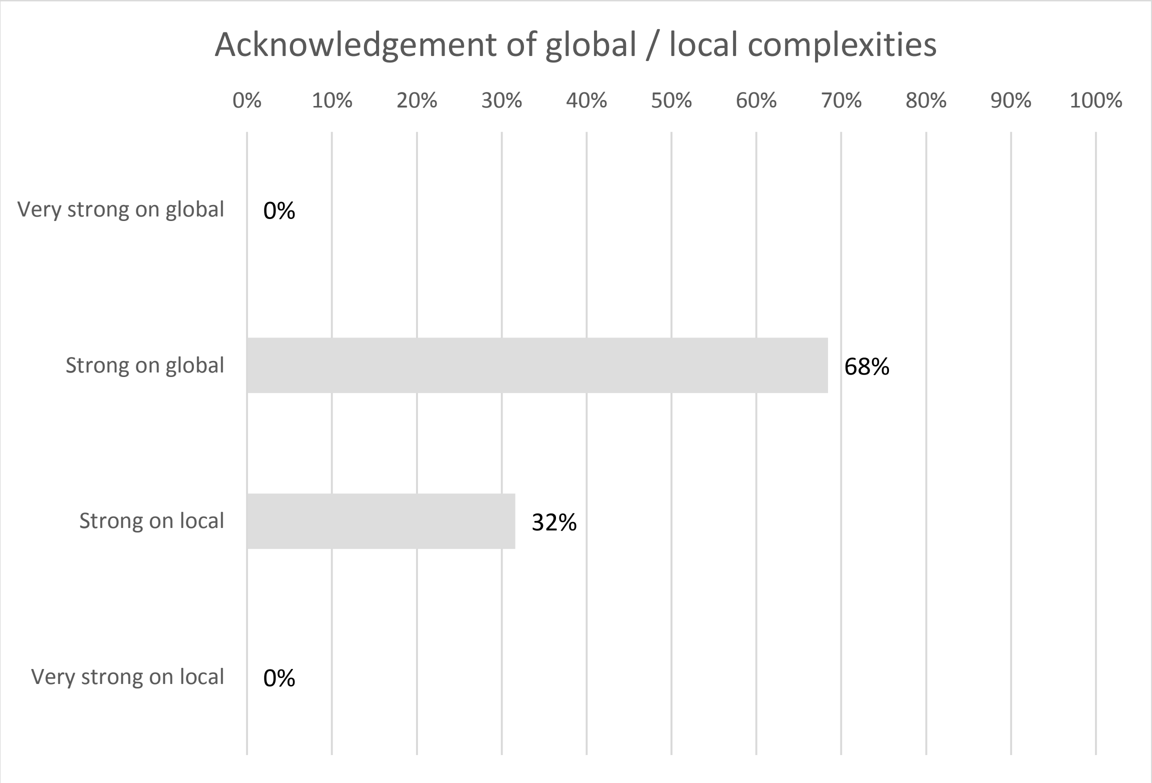

Figure 28: Acknowledgement of global/local complexities

The CEO statement was analysed according to a distinction between the ethics of conviction and the ethics of responsibility, based on the work of Max Weber. This will be discussed in more detail in the next chapter, but essentially entails a distinction between a focus on ethical behaviour as part of a sincere conviction or intention to act ethically (the ethics of conviction); or ethical behaviour performed because of a concern for the consequences of such behaviour (ethics of responsibility). The following scale was used:

- Exclusive focus on ethics of conviction
- Emphasis on ethics of conviction; includes elements of ethics of responsibility
- Emphasis on ethics of responsibility; includes elements of ethics of conviction
- Exclusive focus on ethics of responsibility

The results are displayed in Figure 29.

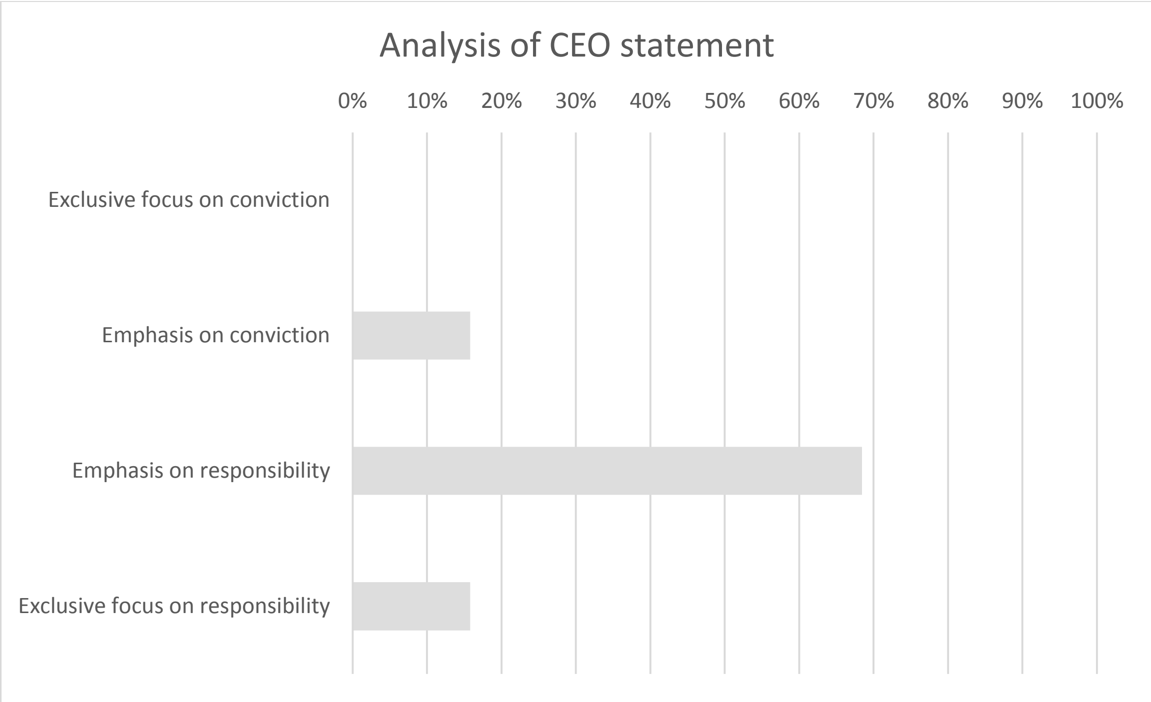

Figure 29: Analysis of CEO statement

The governance focus of the COP was analysed according to the following criteria:

- Exclusive focus on performance
- Emphasis on performance; includes elements of conformance
- Emphasis on conformance; includes elements of performance
- Exclusive focus on conformance

The purpose of this analysis was to assess the relative importance attached to the two main components of governance, as explained in the classical definition: the way in which corporations are directed (performance) and controlled (conformance). Globally there has been a shift from conformance to performance, with the United States perhaps still a notable exception owing to its strong culture of corporate litigation. With the inclusive, stakeholder-based approach of the King Reports, which also emphasise a balanced approach to governance, it was expected that performance would be the main emphasis. The results are displayed in Figure 30.

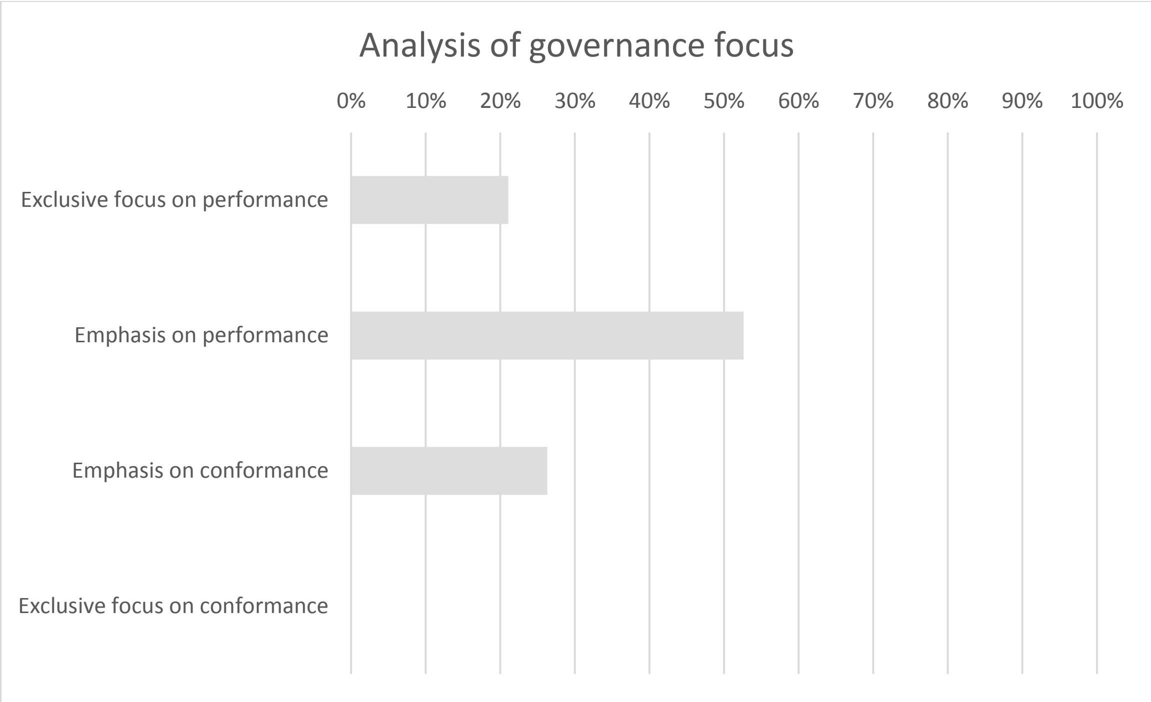

Figure 30: Analysis of governance focus

6.3.2.1 Collective action

Examples of collective action were assessed as follows:

- No examples
- Isolated examples but with no or little detail
- Frequent examples but with no or little detail
- Frequent examples with sufficient detail

The results are displayed in Figure 31.

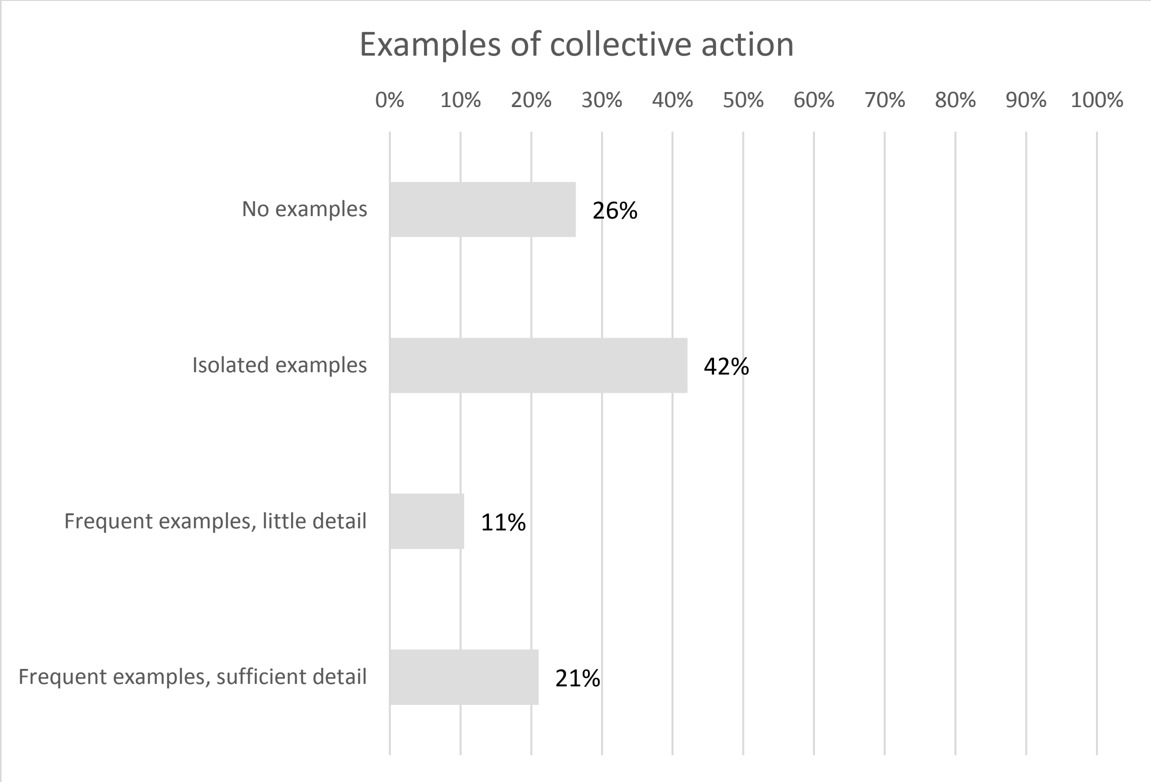

Figure 31: Examples of collective action

Corporations do not often use the words "collective action" when they describe activities in this field. More often, such actions are described as "partnerships". Table 14 summarises a few examples of such activities by South African corporations.

Table 14: Collective action examples

Company	Description of activities
Eskom	Most of the activities described by Eskom refer to water-related partnerships. Eskom refers to the fact that the corporation addresses "catchment and national water challenges through stewardship and collective action" (Eskom, 2012: 61). Collective action was taken in conjunction with other stakeholders such as the Department of Water Affairs, major coal mines, the Water Research Commission, local municipalities and others. Another, less strategic, example of collective action is in the field of conservation. Through the Ingula Partnership, Eskom was appointed as the Species Champion for both the White-winged Flufftail and the Southern Bald Ibis.
Sanlam	Sanlam launched a partnership with Operation Hope, where school children are taught the basics of banking, the power of credit, budgeting, investment and entrepreneurship. A particularly significant example from a strategic point of view is the Ubuntu-Botho Partnership, where the partnership with a broad-based consortium (including trade unions and community organisations) provided insight into local markets that enabled Sanlam to develop new products for these markets (Sanlam, 2011: 54).
Sappi	Sappi collaborated with Timber Logistics Services, a timber transport contractor, to launch SMART vehicles, specifically designed to transport timber to Sappi's mills. The project is based on a certification system that manages overloading, underloading and driver wellness. Benefits include improved safety, less wear on

Company	Description of activities
	roads, increased payloads and a reduction on the number of trucks required to move the same volume (Sappi, 2012: 96).
Sasol	Similar to Eskom, Sasol (2012: 44) has placed a lot of emphasis on water issues. Partnerships with local municipalities and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH are described. Sasol also uses the term “collective action” specifically in this regard.
Unilever	The value of collective action is described by Unilever as follows: “But if we achieve our sustainability targets and no one else follows, we will have failed. Because of this we are working with other organisations … to drive concerted, cross-sector change” (Unilever, 2011: 1). The examples by Unilever also have a clear strategic focus, directly linked to their own products. For example, in Indonesia, Unilever formed a partnership between Lifebuoy, the Indonesian government and NGOs to train teachers to deliver a handwashing behaviour change programme.

6.3.2.2 Moral free space

Examples of moral free space were analysed as follows:

- None
- Isolated examples but with no or little detail
- Frequent examples but with no or little detail
- Frequent examples with sufficient detail

The results are displayed in Figure 31.

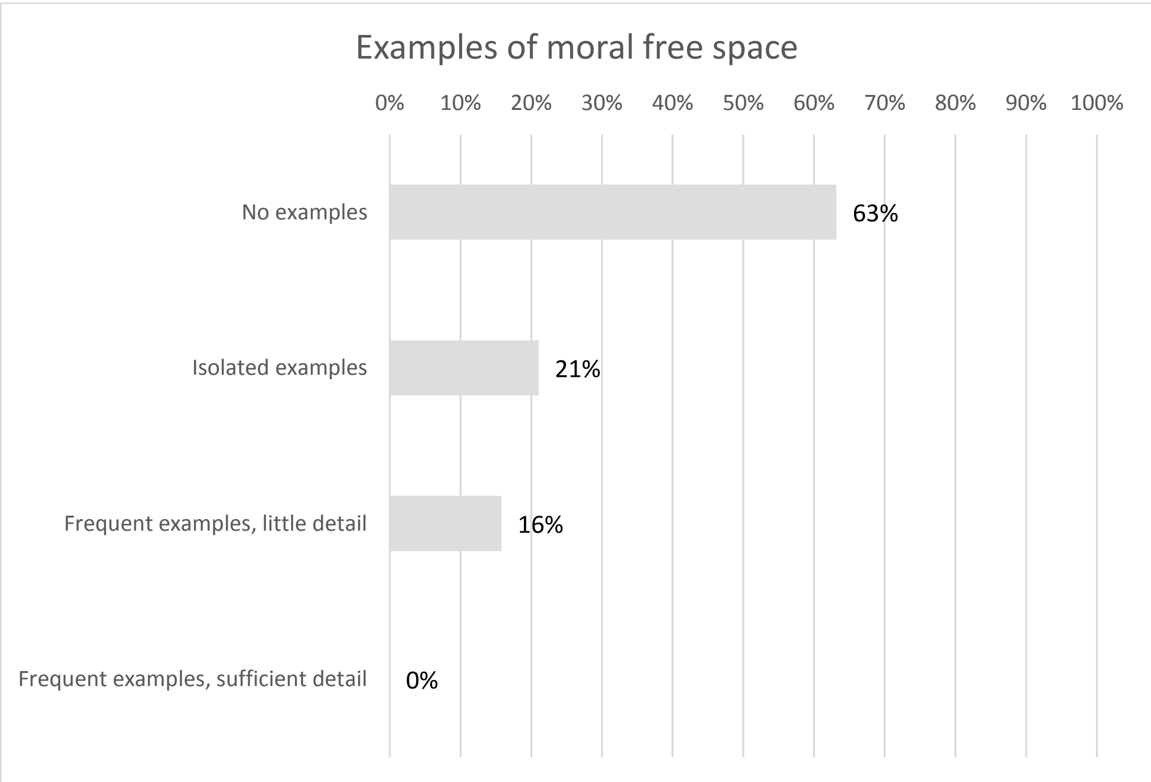

Figure 32: Examples of moral free space

The few examples of moral free space found in the COPs are not particularly strong, and often veer more towards weak micro contracts without the explicit application of moral free space.

Mondi explains its position with regard to stakeholder engagement, which does indicate that the company explores local values in its decision-making processes (Mondi, 2012: 4):

> *We actively engage with the communities in which we operate, respecting the cultural values and rights of indigenous people and local communities, recognising the sensitivities involved in addressing issues that relate to the cultural heritage of indigenous communities and ensuring that any matters are handled in a spirit of respect, trust and dialogue.*

Gold Fields explains the procedure it follows to demonstrate the company's respect for the rights of local and indigenous people (Gold Fields, 2012: 148):

> *Where relevant, we engage with local people through traditional decision-making structures and processes. We do so at the earliest stages of our activities and ensure that we provide accessible and accurate information to inform these discussions. … At Agnew, we implemented a best practice stakeholder engagement structure focused on Native Title to address environmental, heritage and cultural issues in the area. … Whilst the Kalamaia-Kapu(d)n have not registered a Native Title Claim, St Ives engages with the group in recognition of their historical links to the area. In Canada, our exploration team works closely with relevant First Nation communities when operating in their traditional territories. We also conduct archaeological surveys before disturbing the land to make sure we respect sites of cultural significance.*

6.3.2.3 Overall assessment

An overall assessment of the COPs was performed according to the following criteria:

- Mainly a public relations exercise
- Mainly aimed at compliance with key UNGC requirements
- Demonstrates a clear commitment to the UNGC; complies with all UNGC requirements
- Demonstrates a clear commitment to the UNGC; complies with all UNGC requirements; deserves recognition as a best practice reporter

The results are displayed in Figure 33. Eskom was the only corporation that attained the best practice assessment.

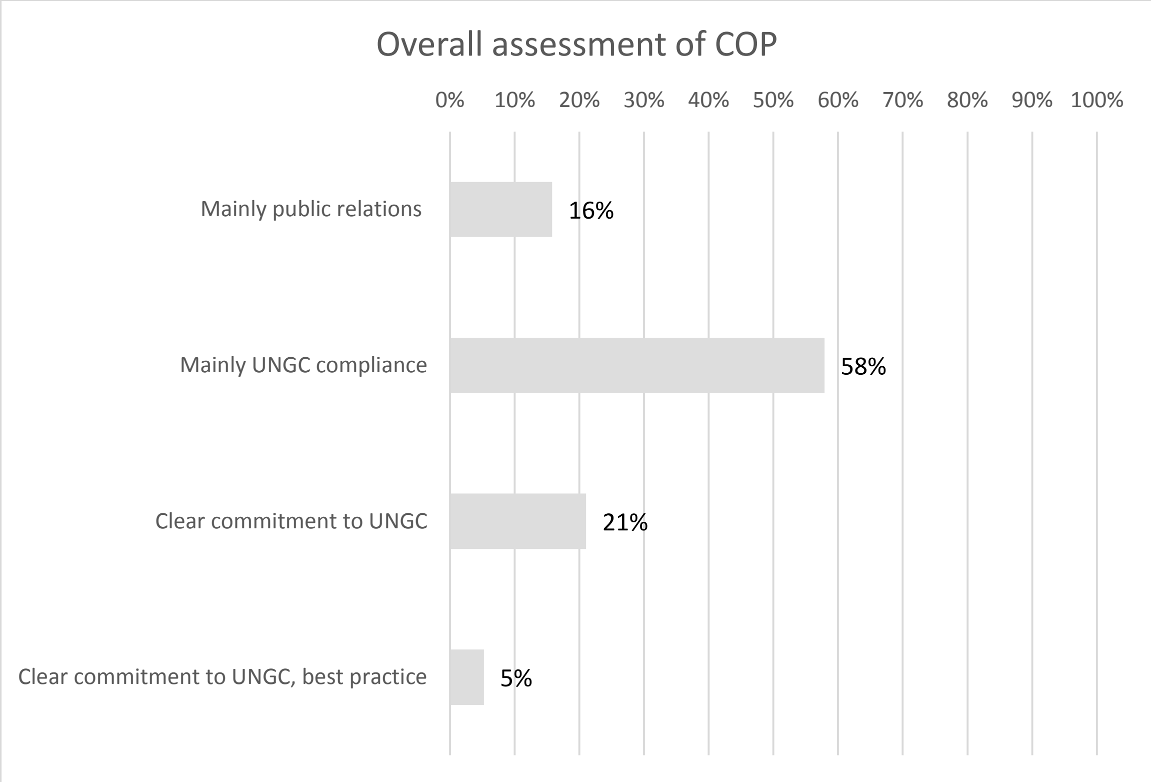

Figure 33: Overall assessment of COP

All COPs were analysed according to their coverage of the four main UN Global Compact components, ranging from very poor to very good, as indicated below.

- Very poor: Component mentioned but no information or almost no information provided
- Poor: Component mentioned and supported by limited or generic information
- Good: Component mentioned and supported by appropriate information; some evidence that stakeholder engagement and materiality criteria were applied
- Very good: Component mentioned and supported by appropriate information; conclusive evidence that stakeholder engagement and materiality criteria were applied
- Component not mentioned

The results are displayed in Figure 34, which indicates clearly that the environmental components receive the best coverage, followed by labour, human rights and corruption.

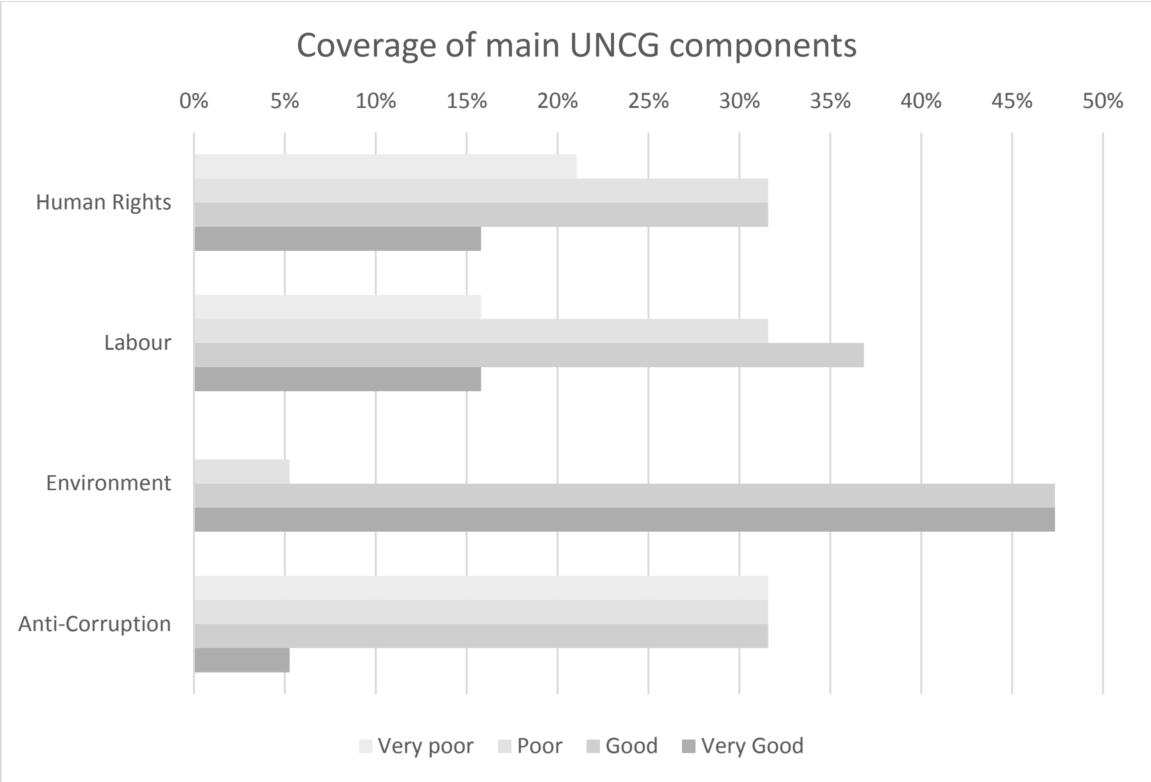

Figure 34: Coverage of main UN Global Compact components

The overall coverage of the categories was aggregated, with a possible score of 100 per cent for a very good score in all categories. The results are displayed in Table 15.

Table 15: Coverage of four main categories

Corporation	Percentage
Eskom	100%
Mondi	94%
Sappi	94%
Gold Fields	81%
Allied Electronics Corporation Limited (Altron)	75%
Barloworld	69%
Exxaro Resources	69%
Impala Platinum Holdings	69%
Nedbank	69%
Sasol	69%
Sanlam	63%
AngloGold Ashanti	56%
Deloitte South Africa	56%
Edcon	56%
Pick n Pay	56%
Unilever	50%
Richards Bay Coal Terminal	44%
Coca-Cola Sabco	38%
FirstRand	38%

6.3.2.3.1 Eskom's results

It is significant to note the good performance of Eskom, one of South Africa's most controversial corporations. As the national electricity utility, the corporation has been under scrutiny for underperformance over the past few years. The fact that Eskom's electricity generation is still largely dependent on high-polluting coal power stations does not improve its image from an environmental perspective. The reason for Eskom's good performance in this assessment can therefore be found either in the positive view that the corporation made honest disclosures and a sincere attempt to improve performance, or in the cynical view that the corporation may be guilty of bluewashing.

A closer look at the corporation's individual results in Table 16 reveals more detail.

Table 16: Extract from Eskom's COP assessment

Assessment criterion	Eskom's assessment
Company position in terms of corporate responsibility	Very strong business case, with almost no mention of moral case
Acknowledgement of global/local complexities	Strong emphasis on global/universal values; clear acknowledgement of need for local flexibility
Analysis of CEO statement	Exclusive focus on ethics of responsibility
Analysis of governance structure, as presented in COP	Emphasis on performance; includes elements of conformance
Examples of collective action	Frequent examples with sufficient detail
Examples of moral free space	None
Overall assessment of COP	Demonstrates a clear commitment to the UNGC; complies with all UNGC requirements; deserves recognition as a best practice reporter

The combined focus on the business case, global values and the ethics of responsibility, with the absence of moral free space examples, can create the impression that Eskom is a corporation that is committed and – having been a member of the UN Global Compact since the initiative's inception – has managed to develop an effective management and reporting framework.

The critical question is: To what extent were the disclosures that were made accurate and made in good faith? In his introduction to the COP, then CEO Brian Dames states: "We are confident that we are setting the utility up for success; that our organisation is becoming financially sustainable" (Eskom, 2012: 2). In the same document, the chairman of Eskom, Zola Tsotsi, states: "At a time when global economic uncertainty is forcing many companies to curtail operations and limit growth, Eskom is hard at work on one of the largest capital expansion programmes in South Africa's history" (Eskom, 2012, p. 1). Yet, barely a year later Eskom had to accept a R250 billion bailout package from the South African government,[84] the CEO resigned (for "personal reasons"[85]), the promised capital expansion was far behind schedule, and the pressure on the national electricity grid was such that frequent countrywide rolling blackouts were required.

The purpose here is not to provide a detailed case study of Eskom. It is also not the intention to assess whether the corporation deserves its top position in terms of this assessment, or whether the

[84] http://mg.co.za/article/2014-09-15-government-to-bail-out-eskom, accessed 30 November 2014.

[85] In an interview with a Sunday newspaper, Eskom CEO Dames said the following: "I just want to have a rest ...(The job) takes a lot out of you. Really it never ends. I normally say to people that I just want a life." http://www.iol.co.za/business/companies/i-just-need-a-rest-ex-eskom-ceo-1.1618740#.VHulEM8cSpo, accessed 1 December 2014.

advanced status according to the UN Global Compact differentiation programme is justified. However, it does highlight the fact that publicly available reports remain just that – publicly available *reports*.

6.3.2.4 Anti-corruption reporting

The final part of the analysis comprised a detailed focus on anti-corruption issues. Coverage of the Anti-Corruption Basic Reporting Elements was assessed on the same 19 corporations and based on the following scale:

- Not reported
- Reported in basic format
- Reported with some detail
- Reported with extensive detail

The following elements were assessed:

- Publicly stated commitment to work against corruption in all its forms, including bribery and extortion;
- Commitment to be in compliance with all relevant laws, including anti-corruption laws;
- Translation of the anti-corruption commitment into actions;
- Support by the organisation's leadership for anti-corruption;
- Communication and training on the anti-corruption commitment for all employees; and
- Internal checks and balances to ensure consistency with the anti-corruption commitment.

The results are displayed in Table 17.

Table 17: Coverage of anti-corruption basic reporting elements

Reporting element	Not reported	Reported in basic format	Reported with some detail	Reported with extensive detail
Overall commitment	26%	21%	32%	21%
Commitment to legal compliance	21%	32%	21%	26%
Translation into actions	37%	37%	11%	16%
Leadership support	42%	37%	5%	16%
Communication and training	47%	21%	21%	11%
Internal checks and balances	37%	26%	26%	11%

The commitment to legal compliance is the element that is reported on most extensively, with 30 per cent of the corporations providing extensive detail, and a further 20 per cent some detail. In terms of communication and training, 45 per cent of corporations did not report on this at all, and 40 per cent of corporations did not report on leadership support. In general, the focus seems to be mostly on compliance and an overall commitment, but it is not backed up sufficiently by leadership support, communication and training, and translation of the commitment into actions. The fact that the overall commitment is much stronger than action, communication and training supports the general premise that not enough local content is coming through.

Finally, coverage of the Anti-Corruption Desired Reporting Elements was assessed, using the same scale as above. The following elements were assessed:

- Publicly stated formal policy of zero tolerance of corruption;
- Statement of support for international and regional legal frameworks, such as the UN Convention against Corruption;
- Carrying out risk assessments of potential areas of corruption;
- Detailed policies for high-risk areas of corruption;
- Policy on anti-corruption regarding business partners;
- Actions taken to encourage business partners to implement anti-corruption commitments;
- Management responsibility and accountability for implementation of the anti-corruption commitment or policy;
- Human resources management procedures supporting the anti-corruption commitment or policy;
- Communications (whistle-blowing) channels and follow-up mechanisms for reporting concerns or seeking advice;
- Internal accounting and auditing procedures related to anti-corruption;
- Participation in voluntary anti-corruption initiatives;
- Leadership review of monitoring and improvement results;
- Dealing with incidents of corruption;
- Public legal cases regarding corruption; and
- Use of independent external assurance of anti-corruption programmes.

The results are displayed in Table 18.

Table 18: Coverage of anti-corruption desired reporting elements

Reporting elements	Not reported	Reported in basic format	Reported with some detail	Reported with extensive detail
Public policy – zero tolerance	53%	5%	21%	21%
Statement of support for legal frameworks	42%	16%	21%	21%
Risk assessment	58%	21%	11%	11%
Detailed policies – high risk areas	74%	16%	5%	5%
Policy regarding business partners	68%	26%	5%	0%
Actions to encourage business partners	89%	11%	0%	0%
Management responsibility and accountability	42%	21%	16%	21%
Human resources procedures	84%	11%	5%	0%
Communication channels and follow-up	26%	11%	37%	26%
Internal accounting and auditing	53%	16%	21%	11%
Participation in voluntary initiatives	95%	0%	5%	0%
Leadership review – monitoring and improvement	79%	11%	11%	0%
Dealing with incidents of corruption	42%	26%	21%	11%
Public legal cases	89%	5%	5%	0%
Independent external assurance	89%	11%	0%	0%

Clearly most corporations have not reached the level of advanced reporting, with the majority not reporting at all on most of the elements listed above. If reports with some detail and extensive detail are combined, the following three elements are reported on in the most detail: communication channels and follow up (65 per cent), public policy on zero tolerance for corruption (45 per cent), and a statement of support for the legal framework (45 per cent).

6.4 Conclusion

Although there is limited scholarly work linking ISCT with the UN Global Compact, the application of the theory to the practical initiative can support a more nuanced understanding of the UN Global Compact and ultimately improve its efficacy. Donaldson's contribution (2003) is to examine the ethical rationale required to make the UN Global Compact a success. However, his three rungs of the ladder (corporate egoism, cooperative egoism and corporate citizenship) are presented in a sequential order that starts with the business case, which is not in line with the argument proposed in this dissertation. ISCT requires corporations to start out with a different understanding of the purpose of the corporation, as opposed to the seductive offering of corporate egoism.

The writer argues that the application of ISCT to the UN Global Compact positions the 10 principles as substantive hypernorms, and that the UN Global Compact could therefore be interpreted as a macro contract. The application proposed in this dissertation also involves a reversal of the process of theoretical application. As opposed to the traditional ISCT application of decision-making in response to a specific ethical dilemma, the proposed application involves recognition of the hypernorms as an overall framework on which appropriate activities and partnerships (micro contracts) can be based. Within the context of the UN Global Compact, local networks, collective action and individual company behaviour provide good examples of such applications.

However, it is important to distinguish between the UN Global Compact as a UN institution and the UN Global Compact *principles*. Although the principles can be described as hypernorms and together would constitute an example of the hypothetical macro contract, the institution itself is not hypothetical. The institution, its leadership and its governance structures can therefore be submitted to the same scrutiny that would apply to any other organisation. This puts the UN Global Compact in a unique position of being both a micro and macro contract at the same time. Confusion between these two roles can probably explain a substantial amount of the unjust criticism levelled against the initiative over the years.

The description of selected African examples and the analysis of active South African participants in the UN Global Compact addressed the general approach to corporate responsibility and the global/local distinction, with a specific focus on anti-corruption. The results support the initial premise that limited examples of moral free space and a focus on local complexities would be found. This is indicative of an approach that is based on compliance and the business case, as opposed to exploring the value of a localised application of universal principles.

To summarise the argument thus far: the UN Global Compact, as the largest corporate responsibility initiative in the world, is based on moral principles, but it is mostly marketed with an emphasis on the business case (corporate egoism and cooperative egoism). This incongruity impedes discussions about the moral purpose of business. This moral purpose of business is increasingly acknowledged as one that requires corporations to act in such a way that they have a positive impact on society. Despite the overwhelming evidence of a planet in crisis and the positive and negative ways in which corporations are involved, methodologically it is not possible to get to the 'ought' from the 'is'. That is why the business case is used as the most pragmatic way to convince companies to change their behaviour.

In response to the research question posed in this study, ISCT makes a substantial contribution to support a more nuanced understanding of the UN Global Compact. This was demonstrated by positioning the 10 principles as hypernorms comprising the macro-social contract, and by describing ways in which the 10 principles find practical application in the activities of signatory corporations with reference to moral free space and micro contracts. In terms of the secondary research question, the central premise that empirical research would reveal only limited examples of how the overall study population (South African corporations that are active participants in the UN Global Compact) takes local conditions into account when implementing and communicating on the 10 principles of the UN Global was proved correct.

The implication is that there is room for improvement. The reason why limited examples are available is because the dominant corporate discourse in terms of corporate responsibility focuses on the business case. The business case sits comfortably next to a focus on compliance, since doing things to make more money and doing things to stay out of trouble are often indicative of the same approach to business.

There is no logical transition between the 'is' and the 'ought'. But the fact that the 'is' is what it is at the moment can certainly provide a pragmatic push in the direction of the 'ought'. The systemic tipping point to demonstrate the unsustainability of business as usual is imminent.

A framework that is based on ISCT could therefore be a practical next step to bring the footnotes closer to the coalface, and the 'is' closer to the 'ought'. Such a framework is presented in the next chapter.

Chapter 7: A practical framework for corporate responsibility

7.1 Introduction

This chapter presents the results of phase two of the research conducted for this dissertation. The results are presented in the form of a proposed framework for corporate responsibility. Following a brief recap and assessment of current guidance on offer by the UN Global Compact, the framework is introduced and its various dimensions are discussed in detail. It is illustrated that the framework is aligned with both ISCT and the UN Global Compact. In terms of ISCT, there is a conceptual part that addresses the hypothetical macro contract (understanding and taking responsibility), and there are operational parts where micro contracts can be established at the local level through the establishment of standards, codes and collective action.

The following summary of previous chapters provides the background for the introduction of the framework:

- Chapter 3 introduced the UN Global Compact as the world's largest corporate responsibility initiative. However, there are many corporations which have not signed up to the UN Global Compact. Therefore, in this chapter, the proposed framework is applied in a more general sense. It can be applied to any organisation with an interest in corporate responsibility, although the focus remains on the UN Global Compact.
- Chapter 4 examined the moral purpose of business and introduced social contract theory and stakeholder theory, while Chapter 5 presented ISCT as the preferred moral theory to assist an understanding of how normative issues apply within a business environment.
- Chapter 6 applied ISCT to the UN Global Compact, and argued that ISCT provides a very effective container to understand existing activities of UN Global Compact signatories, as well as the UN Global Compact's potential value.

Both supporters and opponents of globalisation agree that corporations have enormous power. Most people are familiar with the rule-of-thumb statistic that approximately 50 per cent of the biggest economies in the world are corporations, not countries.[86] The famous quote that great power involves great responsibility has been ascribed to Voltaire (most probable originator) or Roosevelt, while many people may associate it more closely with the grandfather of Spiderman.

[86] For example, see http://www.globalissues.org/issue/50/corporations, accessed 31 October 2013.

There are more than 8 000 corporations from 145 countries that have committed themselves to corporate responsibility by signing up to the UN Global Compact.[87] Many of them possibly did it for the wrong reason, e.g. simply to be associated with the UN brand. However, there are also many other corporations which have not signed up, but which are really committed to corporate responsibility and would like to make a difference.

All of these corporations need guidance. Although legal requirements are often complicated and obscure, at least there is a clear functional discipline (overseen by the compliance officer) to look after this aspect. Corporate responsibility is far more complex, and the internal guidance available to corporations – in general – is less reliable (because quite often there is less rigour involved in training a corporate responsibility manager compared to a compliance officer), not clearly defined (because corporate responsibility can be approached from so many different perspectives) and less accessible (because much of the guidance comes from academics who do not have practical industry experience).

The UN Global Compact itself offers some guidance. Two of the most important tools on offer are:

- The Blueprint for Corporate Sustainability Leadership (recommended for UN Global Compact LEAD corporations); and
- The UN Global Compact Management Framework.

The Blueprint for Corporate Sustainability Leadership reminds participants that participation in the UN Global Compact entails more than simply implementing the 10 principles. There is also a requirement to take action in support of broader UN goals and issues, and an expectation to engage with the UN Global Compact through local networks, working groups, etc. Figure 35 summarises the Blueprint.

[87] https://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html, accessed 6 December 2014.

Figure 35: Blueprint for Corporate Sustainability Leadership

Source: www.unglobalcompact.org

The UN Global Compact Management Model is presented to guide corporations through the entire operational process, from formal commitment to communicating a corporate sustainability strategy. A summary of the model is presented in Figure 36.

Figure 36: UN Global Compact Management Framework

Source: www.unglobalcompact.org

Although the Blueprint and the Management Framework can assist corporations to advance specific components of the UN Global Compact, it is not clear whether the differentiation programme is sufficient to justify two separate products. The two tools both have a very specific approach, and it could be argued that this leads to fragmentation, specifically in light of the fact that the references to leadership, the CEO and the board are not consistent. An important aspect of governance, namely strategy development, which is ultimately a board responsibility, is listed as part of the management framework. It is also not clear why certain aspects, such as partnerships and collective action, are included only as part of the responsibility to advance UN goals and issues, and not as part of the implementation of the 10 principles. For obvious reasons, these tools have been designed specifically with the UN Global Compact in mind, and might therefore not always be compatible with other corporate responsibility initiatives of corporations. Both also focus exclusively on operational components.

With this in mind, the writer set out in phase two of this study to develop a conceptual framework, aligned with both ISCT and the UN Global Compact requirements, in order to assist any corporation to improve the effectiveness of its corporate responsibility initiatives. In a multi-disciplinary environment where context is critical, this is no easy task. The intention is to guide thinking and actions, not to provide solutions. The framework is based on ISCT through linking the theoretical (macro contract) with the empirical (micro contracts categorised in terms of the different operational dimensions of responsibility), and illuminates choices that have to be made, rather than prescribing what should be chosen.

The framework presented here assumes that the reader would agree with the following: The UN Global Compact should be supported, because it reflects a universal set of ethical values (hypernorms), and, with the backing of the United Nations, provides a credible and legitimate framework that could guide corporate responsibility programmes. An application of ISCT enhances the value of the UN Global Compact, because it assists a deeper understanding of the 10 principles (hypernorms), the need for local flexibility (moral free space), and the power of stakeholder-based, inclusive agreements such as collective action and codes of conduct (micro contracts).[88]

It has also been stated before that neither the UN Global Compact, nor ISCT, offers a complete solution. It is therefore necessary to elevate the discussion to a level beyond both the initiative and the theory. But this is a level of practical *application*, not of abstraction. The aim is to create a framework that can provide practical, yet theoretically grounded, guidelines to any organisation, regardless of its size, location or industry.

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[88] Derek Yach, executive director of the Vitality Institute, shared a useful analogy that was drawn at a meeting on Creating Shared Value. The simile that is described can, however, easily be applied to the need for micro contracts to give life to ISCT: "Early in the meeting, one participant suggested that each of the many initiatives underway addressing various aspects of business-society interactions were like individual pearls, things of value and beauty. She suggested we needed to thread the pearls into one necklace to have real impact. Doing that would bring together separate initiatives each with their own semi-proprietary nomenclature, measurement approaches and lead players. Maybe that would lead to wider and faster systemic change."[88]

The framework proposed and outlined in this section is both modest and ambitious: modest, because it is based on existing theory with a slight adaptation suggested in terms of the application of ISCT within a corporate responsibility context; ambitious, because it attempts to cover the elusive divide between academic theory and the world of practitioners.

The framework aims to assist corporations to conceptualise, develop and implement effective corporate responsibility programmes. It is underpinned by the need to have a thorough understanding of responsibility, with specific reference to the distinction between the moral and business case. Such an understanding then enables the corporation to take responsibility, and informs a sequential series of activities that relate to both internal processes (governing responsibility, managing responsibility and reporting on responsibility), as well as responding to the external activity of regulating responsibility.

The framework is outlined in Figure 37.

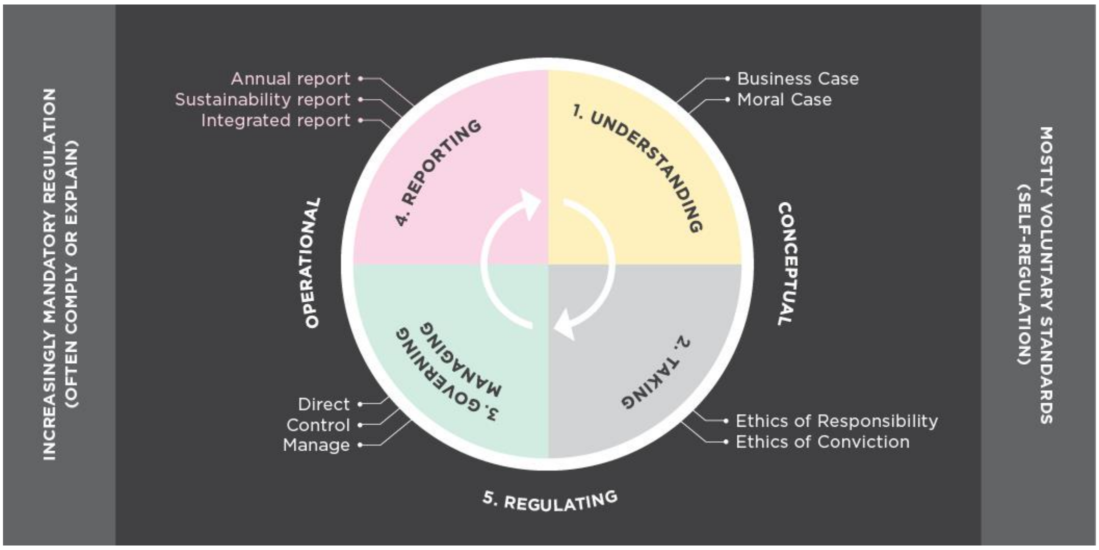

Figure 37: A Practical Framework for Corporate Responsibility

Source: Malan, 2013b

The framework can be summarised as follows. Corporate responsibility has different dimensions: there is a conceptual side, which involves understanding and taking responsibility, and an operational side, which involves governing, managing and reporting on responsibility. Taking responsibility provides the transition from the conceptual side to the operational side. All of these dimensions are situated within a regulatory framework, which comprises a combination of mandatory and voluntary requirements. These dimensions are discussed in more detail in the remainder of this chapter. Although there is a somewhat logical sequence involved (understanding responsibility has to precede taking responsibility, and performance has to precede reporting), in practice these dimensions will be addressed concurrently within a business environment. The regulatory framework is ever-present, and therefore the mandatory and voluntary standards will also appear on each of the segmented graphs that will be used in the sections that follow. Some might question the absence of assurance from the framework. The reason for the omission is two-fold. Firstly, assurance and certification are implicit in some components of reporting and to a more limited extent in some voluntary standards (e.g. SA 8000 and the ISO 14000 series). Secondly, with regard to corporate responsibility, it is the writer's opinion that assurance plays a limited role. In the next chapter, reference will be made to the statement from the South African standard on corporate governance (King III) that the stakeholders of any corporation remain its ultimate compliance officer (Institute of Directors in Southern Africa, 2009: 6).

The framework was developed with the ISCT container as a point of departure, and is therefore fully aligned with the core elements of ISCT. For example:

- Understanding responsibility requires support for the moral case for corporate responsibility, which should ideally be based on universal ethical values. This requires the acceptance of hypernorms.
- Taking responsibility requires ethical leadership and an ability to articulate hypernorms in such a way that it would make sense at the local level. This requires active engagement with moral free space.
- Governing and managing responsibility require directors and managers to translate hypernorms and solutions designed within moral free space into practice, in other words, the development of micro contracts. These micro contracts can be studied empirically, because there is always a specific context, involving *real* corporations and *real* individuals. The assessment of the South African COPs in the previous chapter is an example of this approach.
- Reporting on responsibility is a secondary exercise (performance has to come first), but reporting can also drive change – therefore it is linked to all the other dimensions. This is most accurately reflected in the activities of integrated thinking and integrated reporting, mirrored to some extent by the integrative nature of ISCT.
- Regulation is ultimately based on agreement about either universal values (hypernorms) or the existence of micro contracts. These agreements find expression, among others, in international treaties (hypernorms) or local legislation (micro contracts). With regard to voluntary standards, it may be noted how often the word 'partnership' is used – this could be equated with ISCT's fundamental concept of the hypothetical macro-social contract.

The UN Global Compact is an initiative that brings all these components together. It is a form of self-regulation, based on 10 fundamental principles (hypernorms). It requires corporations not only to understand responsibility, but to *take* responsibility. It provides guidance to boards and managers on how to implement the principles of the UN Global Compact, and it requires signatories to report on responsibility through communications on progress.

7.2 Understanding responsibility

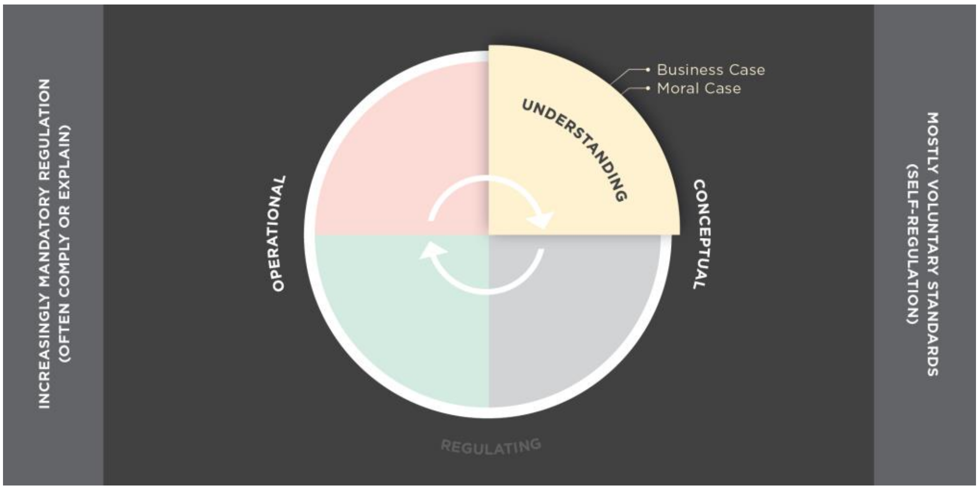

Figure 38: Understanding responsibility

The need for a sophisticated understanding of corporate responsibility was the main focus of Chapter 4. It was suggested that making the conventional distinction between the business case and the moral case by using the superficial hybrid of 'enlightened self-interest' is more complicated than many would acknowledge. A comparison was made between the work of Friedman (derided by many commentators today), but in a way not too far removed from current approaches to strategic CSR such as the shared value contribution of Porter and Kramer.

Through a discussion of ISCT (Chapter 5) and its application to the UN Global Compact (Chapter 6), a proposal was put forward for a specific understanding of responsibility. It suggested that companies who support the proposal should apply the following thinking process:

- Acceptance of the UN Global Compact as a normative framework;
- A commitment to investigate moral free space actively; and
- Acknowledgement of the importance of authenticity and legitimacy.

Understanding is an internal, cognitive process. It does not entail any action and therefore – on its own – will not lead to any action. This illustrates the fundamental tension between theory and practice. In the famous words of Karl Marx: "The philosophers have only *interpreted* the world, in various ways. The point, however, is to *change* it."[89]

[89] http://www.goodreads.com/quotes/17310-the-philosophers-have-only-interpreted-the-world-in-various-ways, accessed 21 November 2014.

The statement by Marx is not supported by Marxists only. The sentiment is also shared by many corporations and their executives. That is the reason why the other dimensions in the proposed framework are described by *action* verbs: taking, governing, managing, reporting and regulating. With the exception of regulating (which is done by persons external to the corporation), the other verbs refer to actions that should be taken by the corporation itself. These are the actions that can be subjected to moral evaluation, and are therefore the reason why corporations can be described as moral entities (Kaptein & Wempe, 2002: 125). With reference to the field of business ethics, Enderle (2007: 92) states the following: “[B]usiness ethics as part of humanities studies should excel in *action* orientation, focusing on philosophical reflection on the acting human beings and accounting for *all* important and interconnected determinants of our volition, thought and action.”

The remainder of this chapter is therefore aimed at assisting any corporation that supports the proposal contained in the study and requests practical guideance. Some of the standards and guidelines that are presented are specific to the South African environment (e.g. the King Reports on Corporate Governance); some are linked to the Commonwealth environment where there is a homogenous approach to governance issues; one initiative is directly relevant only within an African context (the Ibrahim Index on African Governance); but most of the others are global standards or guidelines that are relevant in any jurisdiction.

7.3 Taking responsibility

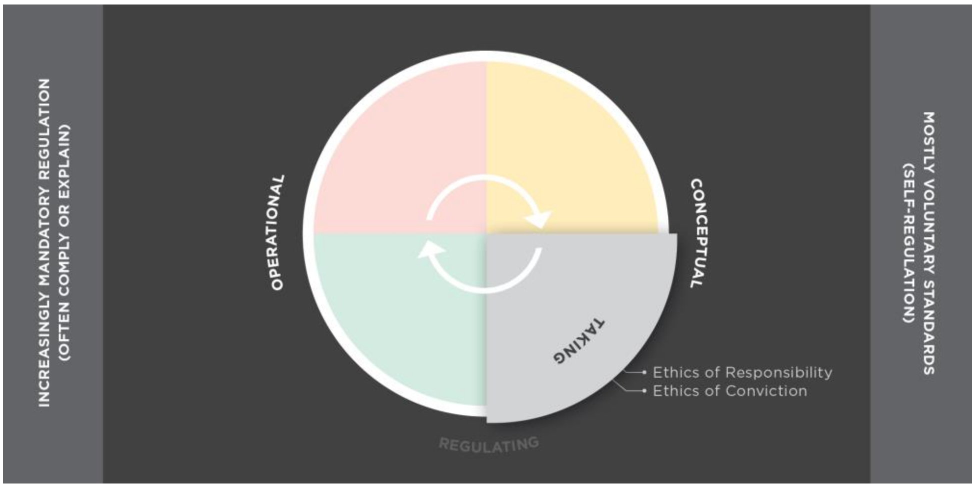

Figure 39: Taking responsibility

The first practical step is to *take* responsibility. This is the first step that starts the thousand-mile journey, to use the famous quote of the Chinese philosopher Laozi (circa 604–531 BC). A corporation has to make a conscious commitment to being responsible, displaying the understanding, and committing to action. This action would usually be taken by the chief executive officer of a corporation in the form of a public statement. The commitment is the transition from the conceptual to the operational, and is still in danger of being stuck in the empty space of words. It is a moment in time, and it is not immediately evident what will follow this critical step. It is like hitting the on-switch without knowing whether the power is connected. Consider the following statement,[90] signed off by Ken Lay from Enron less than a year before the collapse of the company:

> *As officers and employees of Enron Corp., its subsidiaries, and its affiliated companies, we are responsible for conducting the business affairs of the companies in accordance with all applicable laws and in a moral and honest manner ... We want to be proud of Enron, and to know that it enjoys a reputation for fairness and honesty and that it is respected. Gaining such respect is one aim of our advertising and public relations activities, but no matter how effective they may be, Enron's reputation finally depends on its people, on you and me. Let's keep that reputation high.*

It is clear that the danger of lip-service is present when a company *takes* responsibility, because the proof of the pudding will be in the eating. The act of signing up to the UN Global Compact is another illustration of such a step and is subjected to this very same risk.

Ultimately, the assessment of success will be made externally, by other stakeholders in the corporation. This is neatly articulated by the South African King Report on Corporate Governance, which will be introduced in more detail later: "In reality, the ultimate compliance officer is not the company's compliance officer or a bureaucrat ensuring compliance with statutory provisions, but the stakeholders" (Institute of Directors in Southern Africa, 2009: 6).

A useful way to investigate the reason for the commitment is to look at the distinction between the ethics of conviction and the ethics of responsibility, as introduced by the philosopher Max Weber in a famous lecture, *Politics as a Vocation*, which he delivered to radical students in Germany in 1918. Although the lecture was delivered with politics[91] in mind, the application to the role of the CEO of a corporation is just as relevant.[92]

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[90] http://bobsutton.typepad.com/files/enron-ethics.pdf, accessed 21 November 2014.

[91] For a discussion on the links between democracy and governance, see Malan (2011).

[92] The following view on capitalism comes from Weber's introduction to his book *The Protestant Ethic and the Spirit of Capitalism*: "The impulse to acquisition, pursuit of gain, of money, of the greatest possible amount of money, has in itself nothing to do with capitalism. This impulse exists and has existed among waiters, physicians, coachmen, artists, prostitutes, dishonest officials, soldiers, nobles, crusaders, gamblers, and beggars. One may say that it has been common to all sorts and conditions of men at all times and in all countries of the earth, wherever the objective possibility of it is or has been given. It should be taught in the kindergarten of cultural history that this naïve idea of capitalism must be given up once and for all. Unlimited greed for gain is not in the least identical with capitalism, and is still less its spirit. Capitalism may even be identical with the restraint, or at least a rational tempering, of this irrational impulse. But capitalism is identical with the pursuit of profit, and forever renewed profit, by means of continuous, rational, capitalistic enterprise. For it must be so: in a wholly capitalistic order of society, an individual capitalistic enterprise which did not take advantage of its opportunities for profitmaking would be doomed to extinction." http://www.d.umn.edu/cla/faculty/jhamlin/1095/The%20Protestant%20Ethic%20and%20the%20Spirit%20of%20Capitalism.pdf, accessed 5 December 2014 (p xxxii).

Weber describes two different world views. The ethics of conviction presents the world of good intentions, sometimes exemplified by people acting on the basis of religious beliefs. For example: A Christian does what is right and leaves the outcomes to God. But the ethics of responsibility looks beyond conviction and intention, and takes the consequences of action (or inaction) into account. In the words of Weber: "You should resist evil with force, otherwise you are responsible for its getting out of hand."

To some extent this distinction reflects the distinction between the business case and the moral case. If the commitment is based on the ethics of responsibility, the consequences of behaviour must be taken into account. That includes the consequences of profit made or lost, but it also includes the consequences of human suffering or environmental degradation. A committed CEO who wants to take responsibility in this way must therefore be able to practice what he or she preaches.

On the other hand, the ethics of conviction does not necessarily lead to action. The road to hell is paved with good intentions. The secular translation of this phrase might be: "A CEO does what is right and leaves the outcomes to the market."

However, the different outcomes from the two approaches are not very clear, perhaps because the market outcomes are so unpredictable. If, from a normative perspective, a CEO does what is right (e.g. disinvest from a country where human rights are abused), the action could be viewed as both a statement of conviction ("we will do this regardless of what happens to the share price") and an act of responsibility ("we are resisting evil with forceful action").

Enderle (2007) examines the famous lecture and – through a detailed discussion of Weber's position as well as the application of business ethics to Weber's points – comes to the conclusion that it is a "false antithesis" to declare that ethical standards must be based on either convictions or responsibility. He formulates his view as follows: "Business ethics should persistently search for ways to act responsibly and effectively in the historical situation, neither escaping from the current situation into the inwardness of the soul or the nowhere of a dreamt-of better world; nor letting the epochal trends pass by with fatalism" (Enderle, 2007: 91).

Enderle's distinction is useful in assisting with a decoupling of the business case/moral case debate from the required operational approach to ensure efficacy. It also helps executives to take consequences into account without becoming consequentialists.

Taking responsibility is a moral act. It is based on an understanding of the moral purpose of business. It involves conviction and a sense of responsibility, and requires ethical leadership.[93] While the consequences are taken into account, they do not determine the decision. Rather, they determine the strategy. This signals the transition to the world of operations, more specifically the activities of governance and management.

7.4 Governing and managing responsibility

Figure 40: Governing and managing responsibility

The operational part of corporate responsibility signals the transition to practical activities. Making the assumption that a corporation has both a sophisticated understanding of responsibility and an authentic commitment to responsibility, backed up by the necessary ethical leadership, the action that is required will largely depend on two distinct activities: governance and management.

It is important to understand the differences between these two activities. Governance is first and foremost the responsibility of the board of directors, while management remains the responsibility of managers, some of whom may also be directors within the corporation. Similar to the broader discussion about responsibility, it is important to understand both the conceptual components as well as the more practical standards that apply in various jurisdictions.

It is useful to highlight the value of ISCT within this context. Previously it was argued that corporations that develop a sophisticated understanding of the purpose of the corporation and take responsibility accordingly will adhere to the following approach:

[93] The concept of ethical leadership is not discussed in any detail. For an interesting discussion about the concept, see Grebe and Woermann (2011: 3), who argue that "ethical leadership … is a function of the more complex interaction of individual integrity, the institutions of integrity and the integrity of institutions".

- They support the UN Global Compact because it provides a *moral* framework for corporate responsibility. It sets out eloquently and comprehensively the moral purpose of business. They believe that the 10 principles are aligned with their own values as a corporation and they regard them as non-negotiable, even if this means that in some cases this might not be in their own perceived self-interest.
- To prevent the UN Global Compact from becoming a list of empty and vague principles, they will actively investigate moral free space in all the communities and geographical locations where they operate around the globe. They will demonstrate fundamental respect for the 10 principles, but also for local cultures and traditions, and they will implement the principles through micro contracts in such a way that it makes a real and positive difference at the local level – this will involve activities such as collective action, development of internal codes and subscription to voluntary codes.
- They understand that these activities that they will engage in have to be both authentic (i.e. supported by all their material stakeholders) and legitimate (i.e. in line with the substantive hypernorms of the UN Global Compact and other relevant hypernorms that they might identify).

The approach outlined above – active investigation of moral free space and implementation through micro contracts – is not exclusive to the UN Global Compact. It presents a more general approach that is normative (based on principles), flexible (sensitive to local context) and practical (linked to actual micro contracts). It is within this context that governance and management should be investigated.

7.4.1 Governing: The role of the board

There are many different definitions of corporate governance. One of the most useful and succinct definitions has been provided by Sir Adrian Cadbury and later adopted by the Organisation for Economic Cooperation and Development (OECD): Corporate governance is the system by which companies are directed and controlled.

Because this definition has become the classical definition of corporate governance, it is useful to look at the more comprehensive definition as it appeared in the Cadbury Report of 1992 (Financial Reporting Council Limited, 2014: 1):

> *Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the*

management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting.

Garratt (2007: 150-151) provides an extensive discussion of the history of the term governance, tracing it back to its Greek root of *kubernetes*, and describes how it has found expression in modern English through the concepts of not only governance and government, but also cybernetics.

A big problem with governance standards is that there is often an over-emphasis on the control aspects, in other words corporations go into compliance mode and simply look for boxes to tick in order to fulfil the letter, but not the spirit, of a particular governance standard. Once the performance aspect of governance is understood, compliance does not necessarily take a back seat, but takes up its rightful place as one – but not the only – element of a governance system. The focus on performance enables a more strategic understanding of governance, which then makes it far easier for the board to become supportive – or even excited – about its governance function.

Hilb (2012) describes the difference between the shareholder-focused (Anglo-American) model of governance and the relationship-based model (e.g. Germany and Japan) which emphasises stakeholder interests. Hilb proposes a third, "new corporate governance" that integrates the strengths of both models. Any model of corporate governance that acknowledges the importance of ethical principles and responsibilities to stakeholders other than shareholders would support the idea of the three fundamental corporate governance values of honesty or openness, transparency and accountability (Garratt, 2003).

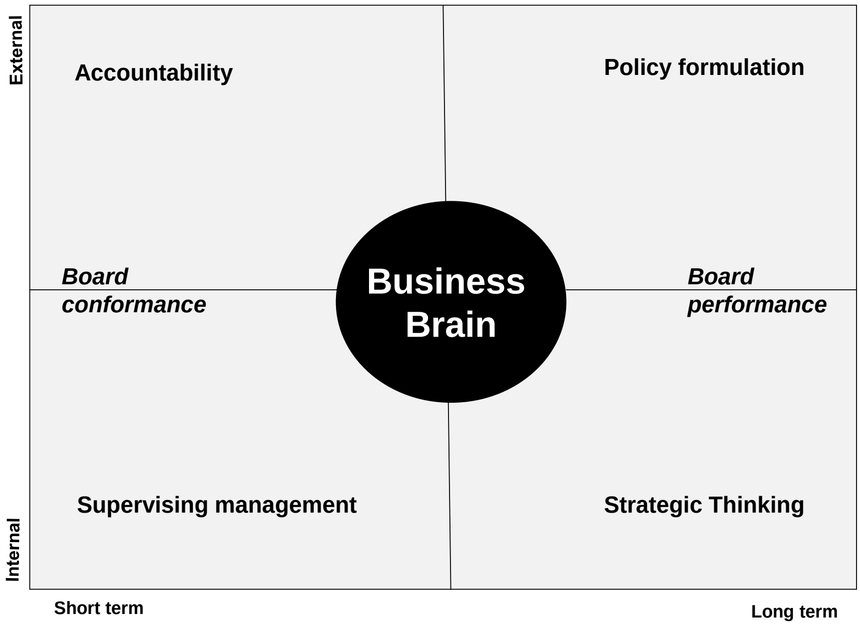

Figure 41: The learning board model

Source: Garratt, 2003

Garratt's learning board model (Figure 41) is a further development of the work of Bob Tricker, and provides a useful summary of the role of the board of directors as well as the different aspects of corporate governance. Garratt reverses the strategic thinking and policy formulation components contained in Tricker's model, where strategic thinking was linked to the external perspective and policy formulation to the internal perspective.

Using a basic matrix that maps short- and long-term perspectives against internal and external perspectives, Garratt describes how policy formulation (external focus and long term) and strategic thinking (internal focus and long term) combine to inform the performance aspects of corporate governance. Accountability (external focus and short term) and the supervision of management (internal focus and short term) jointly inform the conformance aspects of corporate governance. The role of the board as the "business brain" at the centre of the organisation is to ensure that these two aspects – performance and conformance – which have a natural tension between them, remain balanced. This tension is often described as the director's dilemma: deciding how to drive the enterprise forward while keeping it under prudent control (Garratt, 2007: 151).

In a major theoretical contribution on governance, Donaldson (2012) discusses an "epistemic fault line" in corporate governance. He takes aim at the more traditional approaches of corporate governance – agency theory and transaction cost economics – and demonstrates how both commit the naturalistic fallacy. Donaldson argues that the fault line separates positive concepts from normative concepts. He argues that these more traditional approaches to governance move from the 'is' to the 'ought' through a "ubiquitous sleight-of-hand that occurs when such theories transition from empirical *explanation or prediction* to prescriptive *guidance*" (Donaldson, 2012: 257). He uses a compliance-based definition of corporate governance, which is understandable mostly from a predominantly US perspective. Governance, according to him, is "the collection of rules, policies, and institutions affecting how a firm is controlled" (Donaldson, 2012: 257). His critique not only has important implications for the approach to governance, but has wider applicability within the context of this study, with reference to the methodological standoff that was discussed in Chapter 1 (Donaldson, 2012: 265):

> *[M]ore accurate empirical knowledge does not in itself add up to true advice. In itself, empirical knowledge contains no imperative or normative force. Epistemologically speaking, getting better advice about designing corporate structures to minimize opportunism from knowing more about corporate behaviour and motivation is like getting better advice about how to lower one's golf score from knowing more about the physics of the golf swing.*

Donaldson continues to argue that the way to cross the epistemic fault line is to take seriously the distinction between explanation/prediction and justification. As soon as prescription comes into the picture (the 'ought') there is a need for normative justification (the 'why'). According to Donaldson, the nature and structure of the world are not in themselves good or bad, they are bad or good solely in relation to human values. Normative preferences should therefore be made more explicit in theories of corporate governance (Donaldson, 2012: 266):

> *[A]ny theory meant to guide corporations – that is, meant as a true theory of corporate governance – that fails to include some prescriptive support for corporate cooperation in the preservation of the natural environment, or that fails to involve, at least under certain circumstances, duties to refrain from damaging the integrity of the broader economic system, is inadequate.*

This plea by Donaldson provides a perfect introduction for the South African standard on corporate governance, discussed below.

7.4.1.1 Key standards and indices on governance

There are many international standards on corporate governance. These will be described in more detail in the section on regulation. From a South African perspective the King Reports on Corporate Governance are very important, but this importance extends to other parts of the world as well.[94] The reason is that the King Reports, specifically the third King Report, have been acknowledged as international best practice, with specific reference to the area of corporate responsibility (or in the language of the King Reports, corporate citizenship). Although not a standard, the Ibrahim Index on African Governance provides valuable insight into the state of governance on the African continent. Finally, the United Kingdom (UK) Corporate Governance Code and the Principles for Corporate Governance in the Commonwealth provide additional perspectives.

7.4.1.1.1 The King Reports on Corporate Governance

The King Reports on Corporate Governance contain non-legislated codes developed by the King Committee on Corporate Governance, a committee that was established by the Institute of Directors in Southern Africa. Named after the chairperson of the committee, Judge Mervyn King, the so-called King I (1994), King II (2004) and King III (2009)[95] reports have received international recognition for being forward-thinking and innovative, especially in terms of recognising sustainability and corporate citizenship as key requirements for good corporate governance. There was also substantial progress

[94] For a discussion on corporate governance within an African context, see Rossouw (2005).
[95] King III was released on 1 September 2009 and became effective on 1 March 2010.

from King I to King III in terms of how the issue of ethics was handled. Whereas King I merely required a code of ethics, King II emphasised the need to demonstrate a commitment to organisational integrity, and King III focused on the need for ethics practices to be integrated within the corporation.

The King Code of Governance Principles for South Africa 2009 (King III) became effective on 1 March 2010 and was described by Sir Adrian Cadbury as "the future of corporate governance" at the launch of the document in Johannesburg on 1 September 2009. The authors of King III endeavoured to be at the forefront of governance internationally and the code focuses extensively on leadership, sustainability and corporate citizenship. It addresses emerging issues such as alternative dispute resolution, information technology governance, and business rescue.

Table 19 summarises the basic contents of King III.

Table 19: Summary of contents of King III

King III chapter	Focus areas
Ethical leadership	• Leadership based on ethics • Responsible corporate citizenship • Ethics management
Boards and directors	• Focal point and custodian • Strategy, risk, performance and sustainability inseparable • Act in the best interests of the company • Consider business rescue or turnaround strategies • Chairperson must be independent and non-executive • Appoint the CEO • Majority of non-executive directors on board • Majority of non-executive directors to be independent • Formal director appointment process • Formal director training and development • Competent company secretary • Annual evaluation of board, committees and individuals • Delegate to committees without abdicating responsibilities • Governance framework between group and subsidiary boards • Remunerate fairly and responsibly • Disclose remuneration of each individual director and three most highly paid employees • Shareholders should approve remuneration policy
Audit committee	• Effective and independent audit committee

King III chapter	Focus areas
	• Members should be skilled and independent non-execs • Chaired by independent non-exec • Oversees integrated reporting • Combined assurance • Satisfy itself of expertise, resources and experience of finance function • Oversees internal audit • Integral component of risk management • Recommends appointment of external auditor • Oversees external audit • Reports to the board and shareholders
Governance of risk	• Responsible for the governance of risk • Determine levels of risk tolerance • Risk or audit committee to assist the board in its risk responsibilities • Delegate risk management to management • Continual risk assessments • Increase probability of anticipating unpredictable risks • Management to consider and implement appropriate risk responses • Continual risk monitoring by management • Assurance regarding effectiveness of risk management • Risk disclosure to stakeholders
Governance of IT	• Responsible for IT governance • IT to be aligned with performance and sustainability objectives • Delegate management of IT to management • Monitor and evaluate IT investment and expenditure • IT to be an integral part of risk management • Information assets to be managed effectively • Risk committee and audit committee to assist the board
Compliance	• Compliance with all applicable laws • Consider adherence to non-binding standards • Working understanding of applicable laws and standards • Compliance risk to be integral part of risk management • Compliance framework and processes to be delegated to management
Internal audit	• Effective risk-based internal audit • Internal audit function should provide a written assessment of effectiveness of internal controls and risk management

King III chapter	Focus areas
	• Audit committee to oversee internal audit • Internal audit should be strategically positioned to achieve its objectives
Stakeholders	• Stakeholder perceptions affect reputation • Stakeholder management to be delegated to management • Appropriate balance of stakeholders in the best interests of the company • Equitable treatment of shareholders (protection of minority shareholders) • Transparent and effective communication • Effective dispute resolution
Integrated reporting	• Ensure the integrity of the integrated report • Sustainability reporting and disclosure should be integrated with financial reporting • Independent assurance

The first paragraphs of King III are particularly insightful and set the scene for the entire document. These relate to ethical leadership and corporate citizenship and contain the two fundamental principles: the boards should provide effective leadership based on an ethical foundation (which links directly with the previous discussion on "taking responsibility"), and the board should ensure that the company is, and is seen to be, a responsible corporate citizen (which requires the "understanding responsibility" component to be in place as well.

Table 20: First two principles of King III

Governance element	Principles	Recommended practice
1. Ethical leadership and corporate citizenship		
Responsible leadership	1.1 The board should provide effective leadership based on an ethical foundation.	Ethical leaders should: 1.1.1. direct the strategy and operations to build a sustainable business; 1.1.2. consider the short- and long-term impacts of the strategy on the economy, society and the environment; 1.1.3. do business ethically; 1.1.4. not compromise the natural environment; and 1.1.5. take account of the company's impact on internal and external stakeholders.
The board's responsibilities		The board should: 1.1.6. be responsible for the strategic direction of the company and for the control of the company; 1.1.7. set the values to which the company will adhere formulated in its code of conduct [sic]; 1.1.8. ensure that its conduct and that of management aligns with the values and is adhered to in all aspects of its business; and

Governance element	Principles	Recommended practice
		1.1.9. promote the stakeholder-inclusive approach of governance.
Ethical foundation		The board should: 1.1.10. ensure that all deliberations, decisions and actions are based on the four values underpinning good governance; and 1.1.11. ensure that each director adheres to the duties of a director.
	1.2. The board should ensure that the company is and is seen to be a responsible corporate citizen	The board should: 1.2.1. consider not only financial performance but also the impact of the company's operations on society and the environment; 1.2.2. protect, enhance and invest in the well-being of the economy, society and the environment; 1.2.3. ensure that the company's performance and interaction with its stakeholders is guided by the Constitution and the Bill of Rights; 1.2.4. ensure that collaborative efforts with stakeholders are embarked upon to promote ethical conduct and good corporate citizenship; 1.2.5. ensure that measurable corporate citizenship programmes are implemented; and 1.2.6. ensure that management develops corporate citizenship policies.

Source: Institute of Directors in Southern Africa, 2009: 19 - 20.

King III (2009) faces the familiar challenge of lip-service – can corporate South Africa translate an international best practice *document* into international best *practice*? Three significant challenges are presented by the concepts of application, integration and sustainability.

King III introduces "apply or explain", as opposed to "comply or explain" in order to make provision for more customised application of the principles. The emphasis now falls on how the principles and recommendations can be *applied*, as opposed to whether to comply or not. This approach is explained as follows (Institute of Directors in Southern Africa, 2009: 6):

> *It is the legal duty of directors to act in the best interests of the company. In following the 'apply or explain' approach, the board of directors, in its collective decision-making, could conclude that to follow a recommendation would not, in the particular circumstances, be in the best interests of the company. The board could decide to apply the recommendation differently or apply another practice and still achieve the objective of the overarching corporate governance principles of fairness, accountability, responsibility and transparency. Explaining how the principles and recommendations were applied, or if not applied, the reasons, results in compliance.*

This certainly makes it easier for small and medium enterprises, state-owned enterprises, government departments and non-profit organisations to benefit from King III through customised application. At the same time it leaves the door open for any organisation, including listed companies, to become too creative in terms of application and thereby to stray from the main governance principles. This danger is tempered somewhat through the inclusion of company law requirements (the "comply or else" sections of King III, which are indicated through the use of the word "must"). However, for many companies "explain how to apply" might be more relevant at this stage than "apply or explain".

Integration is a golden thread running through King III: "A key challenge for leadership is to make sustainability issues mainstream. Strategy, risk, performance and sustainability have become inseparable" (Institute of Directors in Southern Africa, 2009: 6). This need for integration was also reflected in the (very early) introduction of the concept of integrated reporting.

The integrated report is defined as "a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability" (Institute of Directors in Southern Africa, 2009: 54). Many companies struggle with this level of integration, because it requires a sophisticated understanding of all the separate elements. Some companies understand an integrated report to be a mere cosmetic change – i.e. the financial report and sustainability report published as one document. This superficial level of reporting was prevalent soon after the launch of King III, but major strides have been made in this regard, based on both developments in South Africa as well as the development of an international reporting framework.

In 1987 the UN's Brundtland Report defined sustainable development as "development which meets the need of the present without compromising the ability of future generations to meet their own needs". This definition has become so ubiquitous that people often use the phrase glibly without understanding the underlying motivations and implications. A closer look at the original paragraph is therefore useful (United Nations, 1987: 16):

> *Humanity has the ability to make development sustainable to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs. The concept of sustainable development does imply limits – not absolute limits but limitations imposed by the present state of technology and social organization on environmental resources and by the ability of the biosphere to absorb the effects of human activities. But technology and social organization can be both managed and improved to make way for a new era of economic growth. The Commission believes that widespread poverty is no longer inevitable. Poverty is not only an evil in itself, but sustainable development requires meeting the basic needs of all and extending to all the opportunity to fulfil their aspirations for a better life. A world in which poverty is endemic will always be prone to ecological and other catastrophes.*

The following paragraph is of particular importance (United Nations, 1987: 17):

> *[S]ustainable development is not a fixed state of harmony, but rather a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs. We do not pretend that the process is easy or straightforward. Painful choices have to be made. Thus, in the final analysis, sustainable development must rest on political will.*

The Brundtland Report is particularly clear about the fact that sustainable development does not refer to environmental issues in isolation – which brings us back to the issue of integration (United Nations, 1987: 7):

> *The environment does not exist as a sphere separate from human actions, ambitions, and needs, and attempts to defend it in isolation from human concerns have given the very word "environment" a connotation of naivety in some political circles. The word "development" has also been narrowed by some into a very limited focus, along the lines of "what poor nations should do to become richer", and thus again is automatically dismissed by many in the international arena as being a concern of specialists, of those involved in questions of "development assistance".*

For many years sustainability has been interpreted by companies in fairly simplistic triple bottom line terms, i.e. the need to integrate economic, social and environmental performance. Since the onset of the global financial crisis and before that the spectacular collapse of some of the world's largest companies, the more traditional interpretation of sustainability – to survive as a business – seems to have been a more appropriate definition. King III states that "current incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organise themselves" (Institute of Directors in Southern Africa, 2009: 9).

Effective corporate governance is based on fundamental ethical values and requires responsible corporate citizenship. The "fundamental shift" that is referred to in King III should be interpreted at different levels. Firstly, the required shift in the way companies and directors act is an endorsement of the need for ethical leadership. The inseparability of strategy, risk, performance and sustainability is an endorsement of the need for integration. This includes the integration of the different concepts of sustainability – the long-term sustainability of the planet as well as the shorter-term (financial) sustainability of the corporation. This could point to a further integration of the business and the moral case for corporate responsibility, which will further advance the understanding of responsibility.

7.4.1.2 The Ibrahim Index

The ability of corporations to adhere to their own corporate values and to any voluntary codes they might have subscribed to will be influenced by the countries within which they operate. This links directly to the requirement for political will, as outlined in the Brundtland Report (United Nations, 1987).

Someone that is single-handedly trying to make a difference in terms of country-level governance is Mo Ibrahim, entrepreneur and self-made billionaire, who is making a huge contribution through his somewhat controversial leadership prize worth millions of dollars which is awarded to retired African politicians who demonstrate support for sound governance, as well as through his Ibrahim Index on African Governance. This index ranks 48 African countries in terms of the quality of their governance. The criteria that are used to develop the rankings focus on the following main categories: safety and security; rule of law, transparency and corruption; participation and human rights; sustainable economic opportunity; and human development.

The top 10 performers of the Index from 2010 to 2014 are displayed in Table 21. South Africa more or less maintained its score over this period, and was consistently ranked at number 5 until it improved to number 4 in 2014.[96]

Table 21: Ibrahim Index on African Governance – top 10 performers from 2010 to 2014

Position	Country	Score	Country	Score	Country	Score	Country	Score	Country	Score
	2010		2011		2012		2013		2014	
1	Mauritius	83	Mauritius	82	Mauritius	83	Mauritius	83	Mauritius	82
2	Seychelles	79	Cape Verde	79	Cape Verde	78	Botswana	78	Cape Verde	77
3	Botswana	76	Botswana	76	Botswana	77	Cape Verde	77	Botswana	76
4	Cape Verde	76	Seychelles	73	Seychelles	73	Seychelles	75	South Africa	73
5	South Africa	72	South Africa	71	South Africa	71	South Africa	71	Seychelles	73
6	Namibia	67	Namibia	70	Namibia	70	Namibia	70	Namibia	70
7	Ghana	65	Ghana	66	Ghana	66	Ghana	67	Ghana	68
8	Tunisia	62	Lesotho	63	Tunisia	63	Tunisia	66	Tunisia	66
9	Egypt	61	Tunisia	62	Lesotho	61	Lesotho	62	Senegal	64
10	Lesotho	60	Egypt	61	Tanzania	59	Senegal	61	Lesotho	62

Source: www.moibrahimfoundation.org

The Ibrahim Index on African Governance provides a "framework for citizens, governments, institutions and the private sector to accurately assess the delivery of public goods and services, and policy outcomes, across the continent", as well as a "tool to help determine and debate government

[96] www.moibrahimfoundation.org, accessed 28 November 2014.

performance and a decision-making instrument with which to govern".[97] The IIAG defines governance as the "provision of the political, social and economic goods that a citizen has the right to expect from his or her state, and that a state has the responsibility to deliver to its citizens".[98]

From a corporate responsibility perspective the Ibrahim Index is important for a variety of reasons. Government is an important stakeholder for any corporation, and policy decisions will influence the ability of any corporation to conduct business in a responsible way. Policy decisions will also have an impact on decisions about investment in foreign countries. This is particularly true in terms of perceptions about corruption.

For example, a survey by the Centre for Corporate Governance in Africa at the University of Stellenbosch Business School measured the perceptions of South African companies about ethical and risk compliance issues in the Southern African Development Community (SADC). The following extract from the executive summary provides the main findings (Centre for Corporate Governance in Africa, 2014):

- *Ethical business environment: Mauritius is the only SADC country to be perceived as having a very or somewhat ethical business environment. The DRC, Angola, Zimbabwe and Mozambique are the most corrupt, with both DRC and Angola receiving no positive mentions for an ethical business environment;*
- *Regulatory environment: Botswana, Namibia and Mauritius are considered to have the most effective regulatory environments, with Angola, DRC and Zimbabwe offering the worst;*
- *Law enforcement: Lesotho, Botswana and Mauritius perform best in this area, with DRC, Angola and Zimbabwe performing the worst;*
- *Banking system compliance with anti-money laundering regulations: South Africa, Namibia and Mauritius scored highest, with Angola, Zimbabwe and the DRC at the opposite end of the scale;*
- *Mauritius, although considered to be one of the continent's success stories, continues to face challenges with regard to specific forms of corruption: the use of shell companies to hide company ownership, excessive entertainment and gift-giving, and money laundering;*
- *Namibia has been politically stable since independence and is considered to have an attractive business climate; corruption, however, remains a hindrance to doing business, exacerbated by a weak and under-resourced judiciary;*

[97] www.moibrahimfoundation.org/iiag/, accessed 22 November 2014.
[98] moibrahimfoundation.org/iiag/, accessed 22 November 2014.

- *Botswana is seen as one of the least corrupt countries in Africa but it, too, is perceived to have specific corruption challenges: non-conformance to contract specifications, bribery of public officials in the tender process, deceptive sales or advertising practices, and insider trading;*
- *Zimbabwe's chronic economic woes are beginning to abate, but corruption is now perceived to be endemic: causing the country consistently to be ranked among the bottom three in all the survey questions;*
- *South Africa is the engine of economic growth within SADC and is its largest economy. While business is generally easier and cheaper to do than in the rest of the region, bribery and corruption are perceived to be especially prevalent in the granting of government contracts and procurement tenders;*
- *An overwhelming conclusion of the survey is that there is a close relationship between corruption and conflict, and that efforts to improve governance can help build stable political entities; and*
- *Another important conclusion is that the concept of corruption is too broad to be useful when it comes to remediation: specific programmes to remedy specific forms of corruption are likely to be more effective.*

7.4.1.3 United Kingdom and Commonwealth standards

Because of the colonial history of South Africa, many of the South African developments have their roots in initiatives from the United Kingdom and the Commonwealth. South African corporations remain interested in developments in these jurisdictions, and it is therefore useful to have a brief look at two relevant standards, the United Kingdom's Corporate Governance Code (formerly known as the Combined Code) and the Commonwealth Association for Corporate Governance Principles for Corporate Governance in the Commonwealth.

7.4.1.3.1 The United Kingdom Corporate Governance Code

The UK Corporate Governance Code (formerly the Combined Code) sets out standards of good practice. In terms of Listing Rules, all companies with a Premium Listing of equity shares in the UK are required to report on how they have applied the Code. The standards relate to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

The UK code also highlights the leadership and ethical responsibilities of the board. (The Financial Reporting Council Limited, 2014: 2):

> *One of the key roles for the board includes establishing the culture, values and ethics of the company. It is important that the board sets the correct 'tone from the top'. The directors should*

lead by example and ensure that good standards of behaviour permeate throughout all levels of the organisation. This will help prevent misconduct, unethical practices and support the delivery of long-term success.

7.4.1.3.2 Principles for Corporate Governance in the Commonwealth

The objectives of the Commonwealth Association for Corporate Governance are to promote good standards in corporate governance and business practice throughout the Commonwealth, and to facilitate the development of appropriate institutions which will be able to advance, teach and disseminate such standards.

The 15 principles published by the Association are as follows. The board should:

Principle 1 – exercise leadership, enterprise, integrity and judgment in directing the corporation so as to achieve continuing prosperity for the corporation and to act in the best interest of the business enterprise in a manner based on transparency, accountability and responsibility;
Principle 2 – ensure that through a managed and effective process board appointments are made that provide a mix of proficient directors, each of whom is able to add value and to bring independent judgment to bear on the decision-making process;
Principle 3 – determine the corporation's purpose and values, determine the strategy to achieve its purpose and to implement its values in order to ensure that it survives and thrives, and ensure that procedures and practices are in place that protect the corporation's assets and reputation;
Principle 4 – monitor and evaluate the implementation of strategies, policies, management performance criteria and business plans;
Principle 5 – ensure that the corporation complies with all relevant laws, regulations and codes of best business practice;
Principle 6 – ensure that the corporation communicates with shareholders and other stakeholders effectively;
Principle 7 – serve the legitimate interests of the shareholders of the corporation and account to them fully;
Principle 8 – identify the corporation's internal and external stakeholders and agree on a policy, or policies, and determine how the corporation should relate to them;
Principle 9 – ensure that no one person or block of persons has unfettered power and that there is an appropriate balance of power and authority on the board which is, inter alia, usually reflected by separating the roles of the chief executive officer and chairman, and by having a balance between executive and non-executive directors;
Principle 10 – regularly review processes and procedures to ensure the effectiveness of the corporation's internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times;

Principle 11 – regularly assess the corporation's performance and effectiveness as a whole, and that of the individual directors, including the chief executive officer;
Principle 12 – appoint the chief executive officer and at least participate in the appointment of senior management, ensure the motivation and protection of intellectual capital intrinsic to the corporation, ensure that there is adequate training in the corporation for management and employees, and ensure that there is a succession plan for senior management;
Principle 13 – ensure that all technology and systems used in the corporation are adequate to properly run the business and for it to remain a meaningful competitor;
Principle 14 – identify key risk areas and key performance indicators of the business enterprise and monitor these factors;
Principle 15 – ensure annually that the corporation will continue as a going concern for its next fiscal year.

Again, the emphasis is on ethical leadership, transparency and a focus on external stakeholders, which are all hallmarks of the King Reports in South Africa. It is not surprising, then, to see that Mervyn King was the president of the Commonwealth Association for Corporate Governance at the time when these principles were published.

7.4.1.4 Institutional investors

There is an increasing focus on the role of investors in discussions about corporate governance. This is an important development, because all too often managers or directors would use investors as an excuse to avoid responsible business practices. They would argue that they wanted to support such practices, but because they are under immense pressure from the owners of the corporation, they are not in a position to do anything about it. Responsible investment practices are therefore of huge importance, because these practices can have a major impact on the ability of corporations which want to conduct responsible business to do so, or to force corporations who do not want to, to do so as well.

Two initiatives that are of particular importance in this regard are the International Corporate Governance Network and the United Nations Principles for Responsible Investment.

7.4.1.4.1 International Corporate Governance Network

The International Corporate Governance Network (ICGN) is an investor-led organisation with the following mission: "[T]o inspire and promote effective standards of corporate governance to advance efficient markets and economies world-wide."[99]

[99] https://www.icgn.org/about-icgn, accessed 22 November 2014.

This mission is pursued through three main activities:[100]

> *Influencing policy by providing a reliable source of practical knowledge and experiences on corporate governance issues, thereby contributing to a sound regulatory framework and a mutual understanding of interests between market participants; [c]onnecting peers and facilitating cross-border communication among a broad constituency of market participants at international conferences and events, virtual networking and through other media; and [i]nforming dialogue among corporate governance professionals through the publication of policies and principles, exchange of knowledge and advancement of education worldwide.*

In 2014 the ICGN released an updated version of its corporate governance principles (International Corporate Governance Network, 2014). The document makes a distinction between the principles that apply to boards and those that apply to institutional investors. The following responsibilities are listed for institutional investors:

> *To ensure that the timescales over which investment risk and opportunity are considered match those of the client; [t]o set out an appropriate internal risk management approach so that material risks are managed effectively; [t]o integrate relevant environmental, social and governance factors effectively into investment decision-making and ongoing management; [t]o align interests effectively through appropriate fees and pay structures; [w]here engagement is delegated to the fund manager, to ensure adherence to the highest standards of stewardship, recognising a spectrum of acceptable stewardship approaches; [t]o ensure that commission processes and payments reward relevant and high-quality research; [t]o ensure that portfolio turnover is appropriate, in line with expectations, and managed effectively; and [t]o provide appropriate transparency such that clients can gain confidence about all these issues.*

It is clear that the ICGN expects its members to advance responsible investment practices, with specific reference to the third bullet above (integrating ESG factors into investment decision making). If members do this successfully it will create the space for boards and managers to pursue these activities with the support of investors and therefore with much more effectiveness.

7.4.1.4.2 United Nations Principles for Responsible Investment

The United Nations Principles for Responsible Investment (UN PRI) initiative has its historical roots in the UN Global Compact. The mission statement of the UN PRI is as follows:[101]

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[100] https://www.icgn.org/about-icgn, accessed 22 November 2014.
[101] http://www.unpri.org/about-pri/about-pri/, accessed 22 November 2014.

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole. The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; fostering good governance, integrity and accountability; and addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

The six principles are:[102]

- *Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes;*
- *Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices;*
- *Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest;*
- *Principle 4: We will promote acceptance and implementation of the Principles within the investment industry;*
- *Principle 5: We will work together to enhance our effectiveness in implementing the Principles; and*
- *Principle 6: We will each report on our activities and progress towards implementing the Principles.*

In November 2014 the UN PRI had a total of 1 320 signatories, of which 284 were asset owners, 853 were investment managers and 183 were professional service partners.[103]

In a 2014 survey it is acknowledged by the UN PRI that a lot of work still has to be done. There is a particular recognition that little progress has been made in terms of measurement of impact (UN Principles for Responsible Investment, 2014: 5).

In the survey, 58 per cent of investors who integrated environmental, social and governance (ESG) issues into their listed equity investment processes reported that they reduce volatility and risk (UN Principles for Responsible Investment, 2014: 5). This is a clear indication that for the majority of institutional investors the business case remains the main driving force.

[102] http://www.unpri.org/about-pri/the-six-principles/, accessed 22 November 2014.
[103] http://www.unpri.org/signatories/signatories/, accessed 22 November 2014.

7.4.2 Managing: The role of management

The management of responsibility incorporates two main components: the management of corporate social responsibility, historically viewed as the external responsibilities of the firm towards society, and the traditional management of internal ethics programmes to ensure organisational integrity. Both of these are the responsibility of management, not the board. Very often these components are still divided along functional lines, where the corporate social responsibility function would reside within a public affairs or corporate communications department, and the ethics office would reside within the human resources or risk department. An approach that focuses on strategic CSR or shared value will not necessarily acknowledge these silos, but one has to recognise that there needs to be a functional division of labour to some extent.

The management of social responsibility as part of a public affairs department probably presents one of the biggest risks for a successful programme. Ironically, trusting the internal management of responsibility to those who are responsible to maintain and improve the reputation of the company can have the exact opposite effect. The reason for this is that stakeholders are far more sophisticated and informed (and perhaps cynical) today than they were a decade or two ago. They can easily identify spinning exercises, and modern technology makes it possible for bad examples (good examples from the perspective of those looking for them) to go viral in a matter of hours. According to Waddock, social media forces business leaders to ensure that the public face of the company is authentic (Waddock, 2013: 40).

The management of corporate responsibility will be discussed first, followed by a discussion of the more traditional ethics management function and some suggestions on possibilities for convergence.

It is useful to revisit the steps thus far. Once a corporation understands the need for corporate responsibility, takes responsibility through a public commitment and ensures that the relevant governance mechanisms are in place, the main operational task is to manage responsibility. Given the increasing consensus that this is important for business as well as for moral reasons, the challenge for a corporation is to integrate these activities into its business practices. Apart from the operational challenges to get different business functions to collaborate, it is also to be expected that there will be a fair amount of resistance within the corporation. The understanding that might be present at the top does not always filter through to all levels inside the corporation.

Two of the most common characteristics of global best practice in corporate responsibility are that the programme was developed internally and that proper stakeholder engagement took place. Therefore, it is dangerous to study best practice with the intention to imitate, because – by implication – that would be bad practice. However, it is always useful to learn from companies which seem to get it right, as long as the organisation which is doing the learning realises that it has to learn (not copy) and adapt any practices that work elsewhere to fit local conditions.

Below is a brief discussion of a few companies that participate in the UN Global Compact LEAD Programme: Yara, Maersk, Heineken, Novo Nordisk and Telefonica. Table 22 compares the companies in terms of corporate responsibility structures and other interesting characteristics of their programmes. Reporting practices are also included, although this will only be discussed later. All information was retrieved from the company websites.

Table 22: Brief comparison of selected UN Global Compact LEAD companies

Dimension	Yara	Maersk	Heineken	Novo Nordisk	Telefonica
Structures	Yara adopted "Creating Impact" as the main driver to creating value and growth strategy. No information about committee structures.	Maersk's executive board has overall responsibility. Sustainability Council oversees strategy and coordination. Sustainability issues included in annual business reviews conducted by Group Strategy function. Sustainability integration dashboards with self-assessments.	Heineken is governed by executive level steering committee that meets quarterly. Representatives include chief corporate relations officer (chair), regional president Africa and Middle East, chief supply chain officer, chief commercial officers, chief HR officer. Day to day government by functional representatives is chaired by manager: Global Sustainable Development.	Novo Nordisk has several boards and committees: Global People Board, External Affairs Board, R&D Bioethics Board, Procurement Committee, Business Ethics Board, and Sustainability Committee. Sustainability Committee has overall responsibility. Short- and medium-term priorities and targets are cross-organisational and are managed through balanced scorecard.	Telefonica has a Human Resources and Corporate Reputation and Responsibility Committee – not clear whether this is one committee and whether this is at board level. Business Principles Office is responsible for code of conduct and reports to above-mentioned committee(s)
Reporting	Two separate reports: Financial Report and Impact Review. GRI reporting implemented.	Two separate reports: Financial Report and Sustainability Report. Reporting done in line with LEAD principles.	Two separate reports: Financial Report and Sustainability Report. GRI reporting implemented.	Separate GRI and UNGC COP issued. Annual report accounts for performance during the year – with financial and non-financial information and data in one inclusive report, which can be downloaded as a pdf-document. In addition, an online site supplements the audited and assured	Separate GRI Sustainability report issued. Materiality matrix published. UN Global Compact Progress Report included as separate chapter.

Dimension	Yara	Maersk	Heineken	Novo Nordisk	Telefonica
				written Annual Report by providing additional background, context and data primarily on sustainability issues.	
Other trends or interesting characteristics	Focus on value created, risk, and uncertainty.	Focus on materiality (materiality matrix). Case studies (Case in Point).	Extensive stakeholder engagement and dialogue information. Extensive sections on "what we said we will do / what we have done".	Brief separate GRI report (20 pages) and COP issued.	Company developed a methodology for combining 2.0 channels with traditional face-to-face meetings with stakeholders.

7.4.2.1 Managing ethics

The King III report requires the board to ensure that the company's ethics are managed effectively (see Table 23). This is a good example of the difference between corporate governance and management. It is not the responsibility of the board to *manage* ethics, only to ensure that it is managed effectively.

Table 23: Third principle of King III

Governance element	Principles	Recommended practice
1. Ethical leadership and corporate citizenship		
	1.3. The board should ensure that the company's ethics are managed effectively.	The board should ensure that: 1.3.1. It builds and sustains an ethical corporate culture in the company; 1.3.2. It determines the ethical standards which should be clearly articulated and ensures that the company takes measures to achieve adherence to them in all aspects of the business; 1.3.3. Adherence to ethical standards is measured; 1.3.4. Internal and external ethics performance is aligned around the same ethical standards;

Governance element	Principles	Recommended practice
		1.3.5. Ethical risks and opportunities are incorporated in the risk management process; 1.3.6. A code of conduct and ethics-related policies are implemented; 1.3.7. Compliance with the code of conduct is integrated in the operations of the company; and 1.3.8. The company's ethics performance should be assessed, monitored, reported and disclosed.

Source: Institute of Directors in Southern Africa, 2009: 21.

The governance component is encapsulated in the requirement, which is also a legal requirement in terms of the Companies Act, for large companies to establish a Social and Ethics Committee. [104]

The functions of the Social and Ethics Committee are as follows (Department of Trade and Industry of South Africa, 2011: 57-58):[105]

- *To monitor the company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to [s]ocial and economic development, including the company's standing in terms of the goals and purposes of [t]he 10 principles set out in the United Nations Global Compact Principles; and [t]he OECD recommendations regarding corruption; [t]he Employment Equity Act; and [t]he Broad-based Black Economic Empowerment Act;*
- *Good corporate citizenship, including the company's [p]romotion of equality, prevention of unfair discrimination, and reduction of corruption; [c]ontribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed; and [r]ecord of sponsorship, donations and charitable giving;*
- *The environment, health and public safety, including the impact of the company's activities and of its products or services;*
- *Consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws; and*

[104] According to the Companies Act Regulations (Department of Trade and Industry of South Africa, 2011: 57) this applies to every state-owned company, every listed public company, and any other company that has in any two of the previous five years, scored above 500 points in terms of regulation 26(2). This regulation explains how to calculate the public interest score of a company, using the number of employees, the size of the company's third party liability, the size of the company's turnover and the number of individuals who have a beneficial interest in any of the company's issued securities, or in the case of a non-profit organisation, the number of individuals who are either members of the company, or members of an association that is a member of the company.
[105] Original text, numbering changed to improve readability.

- *Labour and employment, including [t]he company's standing in terms of the International Labour Organization Protocol on decent work and working conditions; and [t]he company's employment relationships, and its contribution toward the educational development of its employees;*
- *To draw matters within its mandate to the attention of the Board as occasion requires; and*
- *To report, through one of its members, to the shareholders at the company's annual general meeting on the matters within its mandate.*

In addition to the King III report, the Institute of Directors also published a practice management note on ethics management (Institute of Directors of Southern Africa, 2009). The practice note outlines the different steps that need to be taken to ensure effective ethics management. These include the development of an ethics risk and opportunity profile, developing a code of conduct, integrating ethics into company operations and ensuring effective reporting and disclosure (Institute of Directors of Southern Africa, 2009). The following activities would be regarded as ways in which the company can integrate ethics into company operations: establishing an ethics office, establishing a board committee tasked with ethical issues, ensuring communication and training activities, establishing a whistle-blowing hotline and establishing a conflict resolution mechanism that would enable employees to deal with ethical dilemmas (Institute of Directors of Southern Africa, 2009: 6).

This framework is fairly generic and based on international best practice. It also follows a standard sequential procedure that is almost always based on the core activities of measurement, followed by intervention, guidance and support, and completed by reporting and disclosure, which would comprise the internal measurement phase of the next cycle.

In Figure 42, a framework provided by Just Managing Consulting[106] illustrates the point.

[106] Just Managing Consulting is the boutique consultancy through which the writer provides limited consulting services.

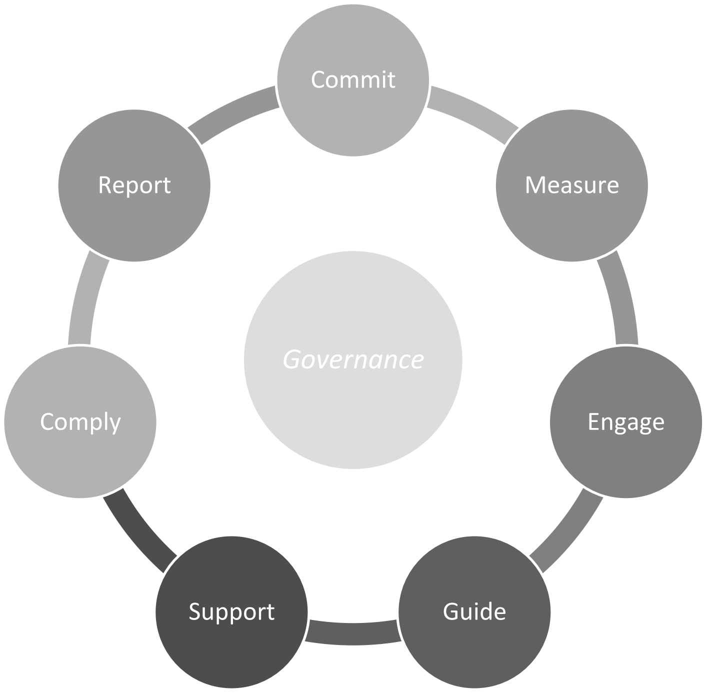

Figure 42: Just Managing Consulting Ethics Management Framework

Source: Just Managing Consulting

Table 24 further describes these elements and also indicates which internal and external documents might be helpful.

Table 24: Description of the Just Managing Consulting Ethics Management Framework

Element	Description	Documentation (internal & external)
Govern	Social and Ethics Committee Board oversight Integration with strategy	Companies Act Regulations King III Social and Ethics Committee Practice Note
Commit	Ethical leadership and Tone at the top	King III
Measure	Measure ethical and compliance risks and ethical culture	King III Ethics Management Practice Note
Engage	Stakeholder analysis and engagement	Stakeholder map and engagement strategy
Guide	Guide employees on ethical conduct (policy development, and training and communication)	Code of Ethics or Code of Conduct Internal HR policies
Support	Provide on-going support to employees through ethics office and whistle-blowing facility	Protected Disclosures Act Ethics Office Terms of Reference

Element	Description	Documentation (internal & external)
Comply	Compliance function External and internal audit	Compliance manual
Report	Include ethical performance measurement in integrated practices	Integrated Report International Integrated Reporting Council's Framework GRI Guidelines

Source: Just Managing Consulting

When describing management frameworks, it is useful to refer to the sequential nature of these activities. However, an over-emphasis on these individual steps is dangerous for two reasons. Firstly, it could lead to a tick-box mentality where those responsible for ethics management lose sight of the principles underlying the process. Secondly, it detracts from the need for integration. The practice note of the Institute of Directors in Southern Africa defines the need for integration as follows: "[It is a requirement] that ethics forms a constituent part of normal business as well as internal and external corporate communication; that ethics informs company policies, procedures, practices, conduct and business agendas; and that all decisions should be preceded by deliberation on ethical issues" (Institute of Directors of Southern Africa, 2009: 5).

The key word here is "normal". Ethics should not be seen as something peripheral to the organisation, but should be part of normal business, should be reflected in all company policies and procedures, and should be present in all decisions the company makes. The integration with decision making is probably the most challenging. A formulaic interpretation of this requirement would necessitate decision makers to pause before every decision and apply some form of an ethical screen, which is not a practical solution. Full integration, on the other hand, will be difficult to measure and could be abused. On this issue one often hears the following retort from a company executive: "Ethics is part of our DNA, we do not have to rely on policies and procedures." While perhaps describing an ideal state of affairs, it is too idealistic and borders on spin. This is exactly the same problem faced by the world of corporate responsibility in general, and the possible solution lies in a combination of convergence and the application of ISCT.

Ethics management is a practical activity and it is therefore useful to look at practical examples of ethical issues that need to be managed in organisations. Between 2005 and 2010, more than 400 examples of ethical dilemmas were collected by the writer from MBA students and participants in executive education programmes, mostly at the University of Stellenbosch Business School. One hundred of these dilemmas appear in Appendix F. In addition, approximately 100 industry-specific dilemmas were collected from a large international professional services firm. These dilemmas were based on the real-life experiences of the individuals who agreed to share them, and were analysed with their permission.[107]

Here are a few of the dilemmas shared by the employees of the professional services firm:

- I have to deal with an employee who boasts about a promotion received after he threatened to resign.
- I do not comply with IT policies but am required to reprimand others who do the same.
- I have received complaints about a colleague who expects junior staff to work overtime while he goes home early.
- I have tried to work less overtime to spend more time with my family, but find that the quality of my work has suffered as a result.
- I do not get along with a colleague who really likes me.
- I have to decide whether to report two colleagues who have booked unauthorised flights.
- I have overheard two colleagues from the Information Technology Department discuss an easy way to cheat on a compulsory online test.
- A client has requested a reduction in fees, but I am not authorised to agree to such a reduction and cannot get hold of my superior. If I do not make a decision we will lose the assignment.
- I have received documentation on a seemingly unimportant issue but do not understand the underlying assumptions and implications. I am hesitant to ask questions because this will make me look incompetent.
- I have discovered that a colleague has booked overtime for returning to the office in the evening to complete work after having taken time off during the day to attend to personal issues.

These dilemmas have been analysed according to a few basic matrices.[108] Although they do not constitute a representative sample, they do provide an interesting insight into the behaviour of employees. The analysis mapped that described behaviour against the following categories:

[107] Examples of dilemmas were collected after participants were exposed to a game of ethical dilemmas. The game, "Cards on the Table", was developed by KPMG. Where permission was granted, the dilemmas have also been used in the development of an online ethics training programme (e-valuation) by Just Managing Consulting. More information is available at www.justmanaging.co.za.

[108] Quite often people describe examples of ethical dilemmas as follows: "I have seen an example of misconduct in my organisation. What should I do about it?" In other words, the dilemmas are framed in such a way that the decision maker has to decide whether to blow the whistle or not. Although it cannot be proved, there is an assumption that sometimes this type of description is provided to add a layer of protection to something that was experienced on a more personal basis, even though confidentiality is guaranteed during the collection of examples of dilemmas. This is similar to the idea of phoning a tax amnesty hotline and asking a hypothetical question or phoning on behalf of a friend. In interpreting each dilemmas, the writer has focused on the actual descriptions of the behaviour, and not on the "do I report or not?" question.

- Intent to do wrong: Is the description of the behaviour indicative of someone who had clear intentions to act unethically?
- Knowledge of policies: Is it evident (or likely) that the person who is acting (or considering an action) has sufficient knowledge of whether the particular behaviour would contravene a policy or not?
- Contravention of policies: Regardless of whether the person had knowledge of the existing policy or not, was the relevant policy actually contravened?

7.4.2.1.1 Intent, knowledge and actual contravention

Figures 43–45 provide a basic analysis of the dilemmas included in Appendix F.

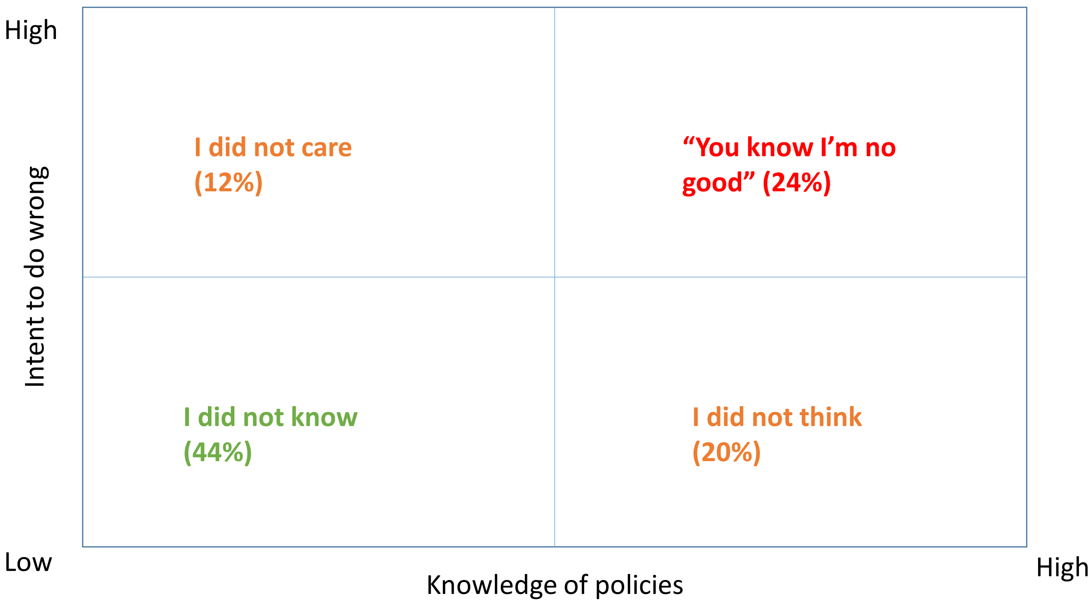

Figure 43: Analysis of dilemmas (intent and knowledge)

Figure 43 shows that, in 64 per cent of cases, there was a low intent to do wrong, and knowledge of policies presented a problem (66 per cent of these respondents did not have sufficient knowledge). However, in the case where there was clear intent to do wrong, 24 per cent of respondents actually had sufficient knowledge of the policies that they were going to contravene. This has clear implications for the design and implementation of corporate ethics training programmes, but that is not the purpose of the discussion here.

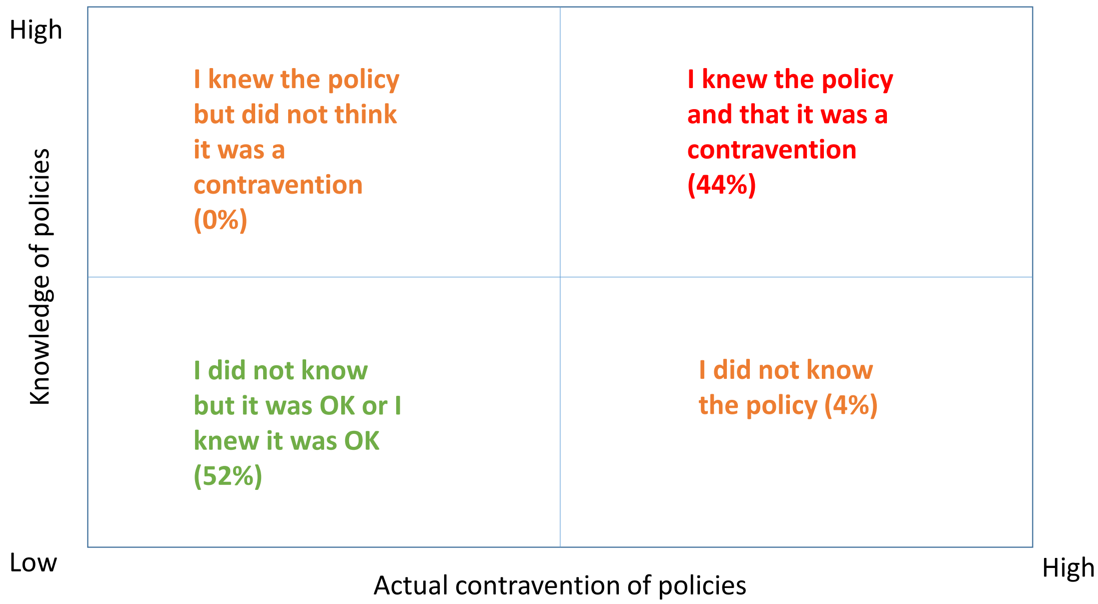

Figure 44: Analysis of dilemmas (knowledge and actual contravention)

Figure 44 reveals that, in 44 per cent of the cases where respondents indicated that they had sufficient knowledge of the relevant policy, there was also an actual contravention of the policy.

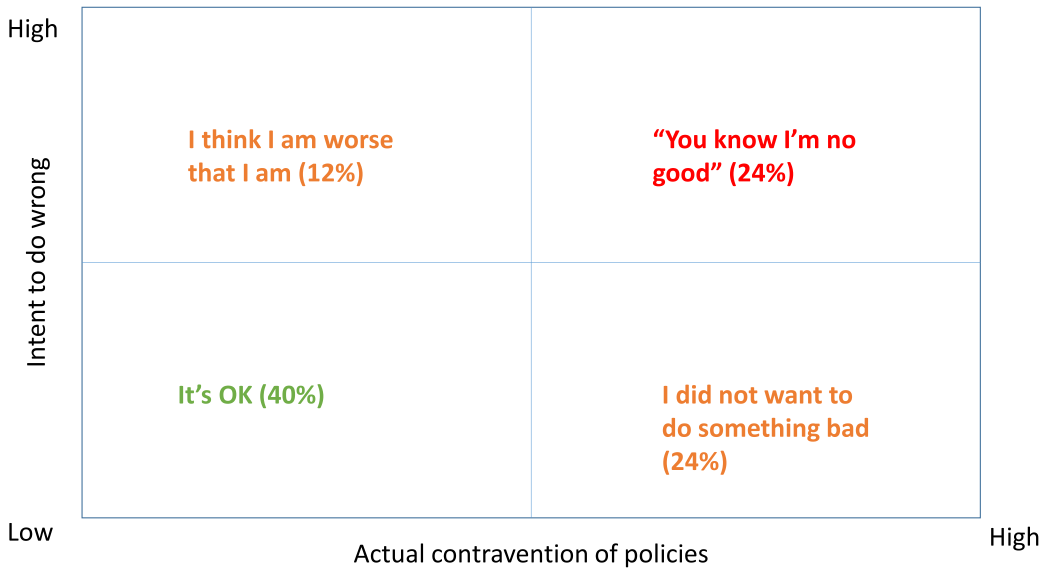

Figure 45: Analysis of dilemmas (intent and actual contravention)

Figure 45 indicates that in 24 per cent of cases where there was a contravention of policies it did not coincide with an intent to do wrong. Also, in 12 per cent of cases there was intent to do wrong but no actual contravention of a policy.

In respect of the analysis of dilemmas that originated in a variety of (mostly South African) organisations and that can be clearly identified with a UN Global Compact category, Figure 46 indicates clearly that anti-corruption issues (understood in the broadest sense) dominate in terms of dilemmas that employees experience on a daily basis.

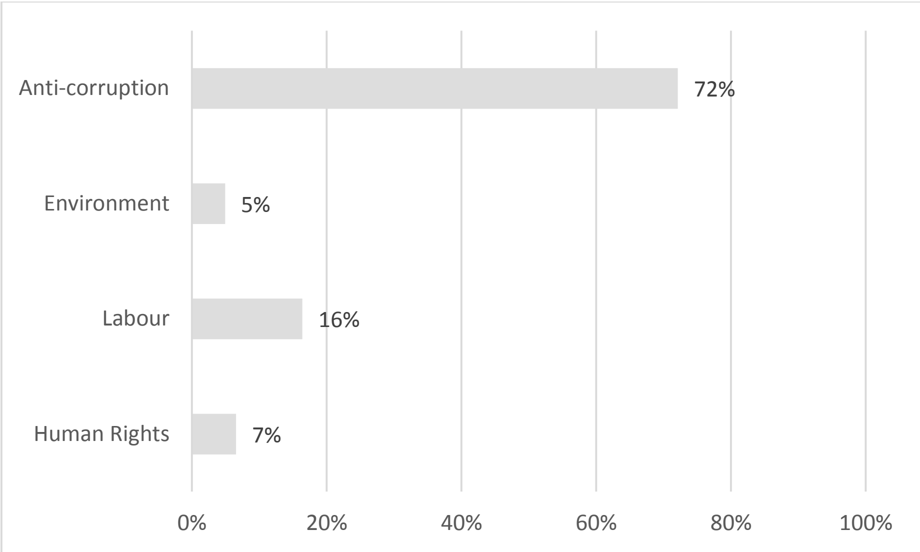

Figure 46: Dilemmas mapped against UN Global Compact categories

To conclude this section, the following summary might be useful, although it is based on a generalisation. In any corporation, in the broadest possible terms, one can think of employees fitting into one of two categories in terms of their own approach to ethics: good (ethical) and bad (unethical). At the same time, employees' behaviour can be classified as good (ethical) and bad (unethical).

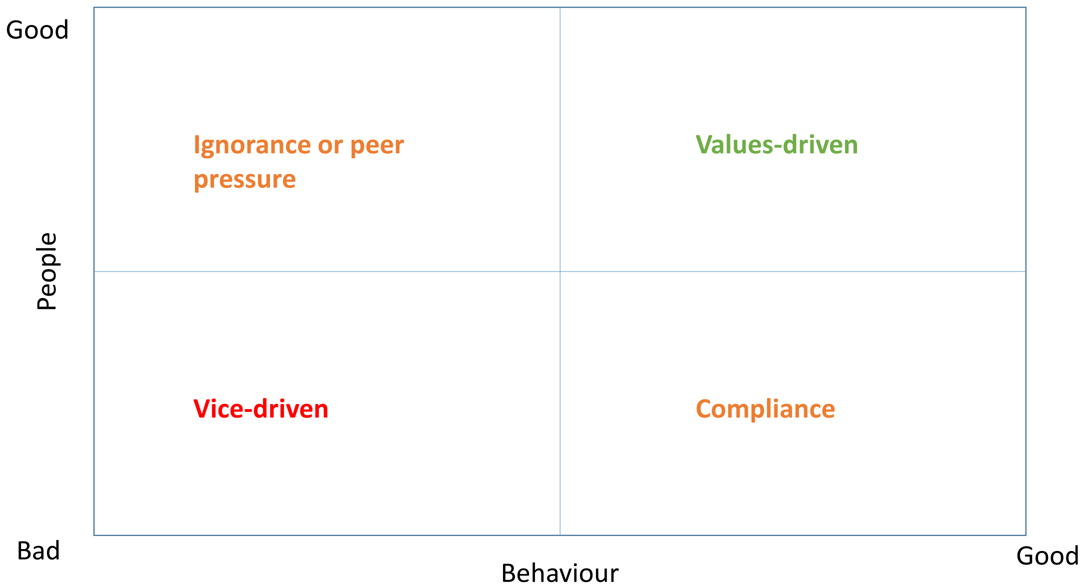

Figure 47: People and behaviour

Figure 47 presents a simplified matrix to illustrated the following four options:

- Good people do good things (values-driven). This is the ideal state in any corporation for obvious reasons and any corporation would like to have as many employees as possible fitting into this category.
- Bad people do bad things (vice-driven). The employees who fit into this category are intent on harming the company through actions (either criminal or against company policy) that would benefit them at the expense of the company. It is unlikely that conventional ethics management programmes will have much effect on their behaviour. There are usually not too many employees that belong in this category.
- Sometimes good people do bad things. This could be the result of ignorance or pressure. The employees in this category need assistance in a very specific way: training on the contents of relevant policies, ethical decision-making skills to enable them to make the right decision, and empowerment to be able to speak up[109] when colleagues or supervisors pressurise them to act unethically.
- Sometimes bad people do good things. They do this not because they want to, but because they have to. If they could get away with bad behaviour or by not doing what they are supposed to do they would, but they fear the consequences: disciplinary proceedings, dismissal or even prosecution. This is why there is a need for compliance programmes in any organisation. Ethical behaviour – unfortunately – is not in the DNA of every employee.

It is clear that an ethics programme has to take all of these different categories into account, and will therefore be multi-faceted. In particular, it is important to empower employees to apply moral free space, in other words to allow them to take the context into account when they make ethical decisions.

This is achievable within the structure of the basic ethics management framework outlined above, but will require detailed planning. It also emphasises the important requirement that each ethics management framework has to be customised to fit the needs of a particular corporation, and that it has to be adjusted from time to time to take into account the shifts – hopefully in the right direction – that will take place as a result of the implementation of the framework.

7.4.2.1.2 Codes

In terms of an ISCT framework, the development of company-specific codes should be highlighted. On condition that they are developed properly, with extensive stakeholder engagement being one of the

[109] Although a whistle-blowing hotline is the more accustomed way of speaking up, and also offers the opportunity of doing so anonymously, there are other ways of speaking up directly by raising difficult issues and inviting discussion. The work of Mary Gentile has been very influential in this area, specifically the development of her "Giving Voice to Values" curriculum. More information is available at http://www.givingvoicetovaluesthebook.com/.

critical requirements – they can be viewed as micro contracts. In the case of multinational corporations, there is a more complex structure involved, because there is often a global code supported by regional or country-specific codes. This provides an ideal opportunity for the application of ISCT, where the global code could be viewed as a macro contract (within a very specific context), supported by micro contracts. For corporations that are members of the UN Global Compact, the same structure can be applied, with the UN Global Compact being the macro contract and the company code a micro contract.

The writer was involved in the process of developing the KPMG Global Code of Conduct. A very specific example of how moral free space can be applied is provided in this case. The global code stated clearly that the corporation is opposed to discrimination in all its forms, while, at the same time, the regional code for southern Africa could include support for affirmative action in South Africa, and for localisation practices in Botswana.

In a study of the 200 largest corporations in the world, it was found that only 52,5 per cent of them had codes (Kaptein, 2004). Kaptein mentions that the results of his study could be used as a benchmark for international codes such as the UN Global Compact (Kaptein, 2004: 15).

Three different types of codes are identified: the stakeholder statute, the values statement and the code of conduct (Kaptein, 2004: 13). Stakeholder statutes have both an internal and external focus and aim to clarify responsibilities and principles towards stakeholders. Values statements are primarily for internal use and to a lesser extent for external use and promote organisational values. Codes of conduct are primarily for internal use and describe desirable employee conduct (Kaptein, 2004: 25).

The stakeholder principles that were most often addressed in the codes are (percentage in brackets indicates the percentage of companies that cited the principle in their code: transparency (55 per cent), honesty/truth (50 per cent), fairness/impartiality (45 per cent), trust (23 per cent) and empathy/respect/diversity (20 per cent) (Kaptein, 2004: 21).

Kaptein (2004: 26) argues that the wide diversity that was found in terms of structure and content is not a negative, but can be interpreted as an indication of authenticity, i.e. it indicates that corporations developed their own documents and took local conditions into account. Although this is not the same as an indication of the application of moral free space, at least the findings are compatible with the application of moral free space.

7.4.2.1.3 Convergence

An example of an attempt to integrate the management of ethics and the management of corporate responsibility is provided by Barclays. As one of the biggest financial services companies in the world, Barclays was confronted by a series of scandals over the last couple of years that prompted changes at the executive level and a complete rethink of its position on corporate responsibility.

The major scandal involved the manipulation of the LIBOR rate (the London inter-bank lending rate). In June 2012 Barclays was fined £290 million for attempts by some of its derivative traders to rig the rate. This resulted in the resignation of both Barclays Chief Executive Bob Diamond and Chairman Marcus Agius.

At first, the chief executive, Bob Diamond, resisted pressure to resign. In a letter to staff a few days after the huge fine was imposed, he wrote:[110]

> *I love Barclays, and I am proud of all of you. We all know that these events are not representative of our culture, and it is my responsibility to get to the bottom of that and resolve it. Make no mistake the actions taken in this incident were against all of the principles we live by.*

One day later he resigned. Agius, who had earlier resigned as chairman, was asked to step in as caretaker chief executive. The incoming chief executive, Antony Jenkins, initiated a series of sweeping reforms inside the bank, with a specific focus on corporate citizenship.[111]

Jenkins[112] states that "people rightly expect businesses to demonstrate leadership by serving as a catalyst for helping societies to prosper. Barclays is committed to meeting that responsibility". The Barclays Citizenship Plan (Barclays plc, 2013) outlines a citizenship strategy that is based on three key pillars. These are called "The way we do business", "Contributing to growth", and "Supporting our communities". This structure manages to address many of the challenges discussed in this section.

"The way we do business" addresses the link between corporate responsibility issues and internal ethics requirements. The Citizenship Plan defines "The way we do business" as follows:

- *We will: implement a global Code of Conduct to set clear and consistent expectations of behaviour.*
- *We will: ensure material business decisions reflect stakeholder considerations*
- *We will: proactively manage the environmental, social and governance impacts of our business*

[110] http://www.bbc.com/news/business-18678731, accessed 23 November 2014.
[111] To ensure transparency, the writer discloses that he is a consultant to Barclays Africa. However, he was not involved in the design of the three pillar model on corporate citizenship.
[112] http://www.resources.barclays.com/citizenshipreport/, accessed 23 November 2014.

- *We will: be market leading on transparency – being as open as possible about how we do business*
- *We will: minimise our broader systemic risk to the economy and society*

"Contributing to growth" addresses the link between corporate responsibility and the broader economy. It emphasises (implicitly) the fact that responsible business behaviour and corporate citizenship are strategic issues and can be used to make a contribution to growth, while making profit at the same time. The Citizenship Plan defines "Contributing to growth" as follows:

- *We will: leverage our products, capital networks and expertise to drive sustainable progress*
- *We will: help more businesses to start-up and grow*
- *We will: improve youth employability*

And finally, "Supporting our communities" refers to the more traditional CSR activities that many corporations offer. It is important to note that these activities are not discarded altogether, but rather, they are given a new context as one of three pillars. The Citizenship Plan defines "Supporting our communities" as follows:

- *We will: invest £250 million in community programmes*
- *We will: help build the enterprise, employability and financial skills of five million disadvantaged young people*

Taken together, this approach demonstrates integration at two distinct levels. Firstly, there is the integration of ethics management and corporate citizenship. "The way we do business" is positioned as a fundamental component of citizenship. Secondly, there is integration between citizenship activities and the contribution that the corporation can make to the economy. In other words, there is a strategic link between responsible business and successful business.

This approach can be regarded as best practice. It has received a lot of airtime within the bank through communication and training. But it is not a magic wand that will solve all the problems of Barclays. Two years after the LIBOR scandal, Barclays made headlines again, this time with regard to the so-called dark pools (a vehicle that allows investors to trade big blocks of shares anonymously). In June 2014, a lawsuit was filed in the United States by the New York State attorney-general, which alleged that Barclays had promised to get the best possible prices for customers looking to buy or sell shares, but that it had instead taken steps that maximised the bank's profits. The bank's share value dropped by five per cent in one day, but Antony Jenkins was protected because the alleged misconduct took place before he took over as chief executive.

The Barclays case provides good insight into the complexity of corporate responsibility issues in the current environment. It is extremely challenging to manage the behaviour of a multinational corporation with approximately 140 000 employees, operating in many jurisdictions around the world. Cultural problems in a huge organisation are complex. Progress is likely to be incremental, and because of different agendas from different stakeholders, there will be fundamental differences on what exactly constitutes an improvement in culture and how it could be measured.

Measurement of progress is the topic of the next section, which looks at the activity of corporate reporting.

7.5 Reporting on responsibility

Figure 48: Reporting on responsibility

Reporting is of particular importance because it provides the window on all the other dimensions of responsibility. A corporate report shares information – financial and non-financial – with both external and internal stakeholders. It is through the analysis of corporate reports that stakeholders and scholars receive insight into how corporations understand, take, govern and manage responsibility. Examples of collective action and other micro contracts are shared through reporting, and are often framed by micro contracts in the field of reporting, such as the Global Reporting Initiative.

This section provides a brief historical overview of sustainability reporting and contextualises the recent emergence of the concept of integrated reporting. The business case for reporting and the main role players and standards are discussed, with specific reference to the work of the Global

Reporting Initiative and the International Integrated Reporting Council.[113] In terms of integrated reporting, this study addresses some of the critical questions, namely:

- Who drives reporting?
- Should the reporting process lead to the publication of one or multiple reports?
- What are the most relevant or material issues to address?
- Who are the target readers or users of reports?
- Who governs the reporting process?
- Who regulates reporting?

7.5.1 The evolution of reporting

Corporate responsibility reporting has been around for longer than many people might think. Over time, the focus has shifted from social components, to environmental components, to a 'triple bottom line' approach and currently is moving rather rapidly in the direction of integrated reporting. The roots of reporting can be traced back to the 1940s when the term 'social audit' was used for the first time by Stanford's Professor Theodore Kreps (1897–1981) in relation to companies reporting on their social responsibilities. This concept was further developed during the 1950s and beyond, but mostly within academic circles and focused on the broader concept of corporate social responsibility (CSR), as opposed to the activities of measurement and reporting.

During the 1980s ethical investment funds in the United Kingdom and the United States of America (USA) started screening companies based on their social and ethical performance. The 1990s brought increased reporting, e.g. the Body Shop International voluntarily published its first Values Report almost twenty years ago (1995) – this report included environmental, animal protection and social statements. The 1990s were described as the "Transparency Decade" by the globally recognised think tank SustainAbility. This was a period when a series of major incidents forced pioneering companies to 'come clean' and issue reports. At the same time, sustainability reporting standards were formalised through the Global Reporting Initiative (GRI). These guidelines are currently in their fourth iteration. SustainAbility argued that the first decade of the 21st century might become the "Trust Decade", based on ever-increasing transparency, accountability and reporting. Ironically, this decade turned out to be one of fundamental distrust, starting with the collapse of Enron and ending with the aftermath of the global financial crisis. It could perhaps be argued that the distrust arose as a result of increased disclosure and transparency. However, a more plausible reason is that poor or questionable corporate performance (rather than increased disclosure) was the main culprit.

[113] The introductory part of this section is based largely on a discussion document that the writer prepared for the Vitality Institute.

The most important changes that have been identified over the last two decades are the growth in the number of reporting companies (from a few dozen to a few thousand), the shift from environmental disclosure, to triple-bottom-line disclosure, to integrated reporting; and the rapid increase in the volume of information (both printed and online).

However, even a few thousand reporting companies still constitute a small percentage – in July 2014 there were approximately 6 400 reporting organisations listed on the Global Reporting Initiative website, and many of these are not multinational corporations.[114] According to the World Health Organisation there are more than 60 000 multinational corporations in the world, and trade between these corporations and their subsidiaries or affiliates accounts for two-thirds of total world trade.[115] This seems to be more or less in line with the earlier estimate of 70 000 multinational corporations (McIntosh & Waddock, 2010: 220).

Large, multinational companies remain the most frequent reporters. The KPMG Survey of Corporate Responsibility Reporting (2013) confirms that corporate responsibility reporting is a mainstream business practice worldwide. Out of 4 100 large companies surveyed worldwide by KPMG, 71 per cent issued corporate responsibility reports, and out of the 250 biggest companies in the world, 93 per cent issued such reports.[116] The survey also indicated that 78 per cent of participating companies that issued corporate responsibility reports used the GRI Guidelines. For the 250 biggest companies in the world, this number was 82 per cent.

Smith and Alexander (2013) analysed website headings of Fortune 500 companies to determine which CSR-related headings are the most common. They found the words 'community' and 'environment' to dominate the headings, with 83 per cent and 80 per cent of Fortune 500 companies respectively using these terms as headings on their websites. There was a substantial drop to the next level of headings used: health and wellness (63 per cent), sustainability (62 per cent), diversity (60 per cent) and ethics (59 per cent). The headings of corporate responsibility (36 per cent) and citizenship (17 per cent) were used relatively infrequently (Smith & Alexander, 2013: 163).

The challenge that was identified by SustainAbility some time ago remains relevant today, namely the need to link sustainability issues with business performance and corporate identity. More recently the positions of financial institutions and institutional investors have made a substantial contribution to highlighting the business case for reporting, with the UN Principles for Responsible Investment (an

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[114] http://www.who.int/trade/glossary/story057/en/, accessed 5 April 2014.
[115] http://database.globalreporting.org, accessed 5 April 2014.
[116] http://www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/corporate-responsibility-reporting-survey-2013.aspx, accessed 8 June 2014.

initiative of the UN Global Compact and UNEP Finance Initiative) and the International Corporate Governance Network (ICGN) being particularly active in this regard.

Over the years, there have been increasing requests for governments to make some form of sustainability reporting compulsory. A few years ago, this culminated in the GRI's "Report or Explain" campaign.[117] Extensive lobbying also succeeded in putting reporting on the agenda for the Rio+20 Earth Summit in 2012. In the end, a relatively watered down paragraph was inserted in the final declaration[118] signed by 114 heads of state. Paragraph 47 of the final declaration reads:

> *We acknowledge the importance of corporate sustainability reporting and encourage companies, where appropriate, especially publicly listed and large companies, to consider integrating sustainability information into their reporting cycle. We encourage industry, interested governments as well as relevant stakeholders with the support of the UN system, as appropriate, to develop models for best practice and facilitate action for the integration of sustainability reporting, taking into account the experiences of already existing frameworks, and paying particular attention to the needs of developing countries, including for capacity building.*

Following agreement with this wording, France, Denmark, South Africa and Brazil cooperated in forming a governmental group entitled the "Group of Friends of Paragraph 47".[119]

In addition, the OECD Guidelines for Multinational Enterprises recommend the following (OECD, 2011: 27):

> *Enterprises should ensure that timely and accurate information is disclosed on all material matters regarding their activities, structure, financial situation, performance, ownership and governance. This information should be disclosed for the enterprise as a whole, and, where appropriate, along business lines or geographic areas. Disclosure policies of enterprises should be tailored to the nature, size and location of the enterprise, with due regard taken of costs, business confidentiality and other competitive concerns.*

In a speech to the Institute of Chartered Accountants in England and Wales in March 2014, Mervyn King, chairman of the IIRC, explained the responsibility of the board to ensure that traditional reporting is translated into a more accessible format:[120]

[117] https://www.globalreporting.org/network/report-or-explain/Pages/default.aspx, accessed 8 June 2014.
[118] http://www.un.org/disabilities/documents/rio20_outcome_document_complete.pdf, accessed 8 June 2014.
[119] http://www.unep.org/resourceefficiency/Portals/24147/Business-Ressource%20Efficency/GoF47%20Two-Pager.pdf, accessed 8 June 2014.
[120] http://www.ion.icaew.com/ClientFiles/a42b9c80-6acd-4dca-980a-bac45d9a324d/MervynKingspeech.pdf, accessed 7 June 2014

> *To be accountable, the board must report in an understandable manner. Financial and non-financial reporting are each critical but neither alone nor in their silos is sufficient. The system of [integrated reporting] requires the board to apply its collective mind to those reports prepared, to the average user, in incomprehensible language, understand them and explain 'the state of play' of the company in clear, concise and understandable language. Such a report enables all stakeholders to make an informed assessment about the company's stability and sustainability.*

A 2013 publication of the United Nations Environment Programme (UNEP), the Centre for Corporate Governance in Africa at the University of Stellenbosch Business School, the GRI and KPMG, namely *Carrots and Sticks: Sustainability reporting policies worldwide – today's best practice, tomorrow's trends*, indicated an increase in mandatory reporting standards in many developed and developing countries. Seventy-two per cent of the 180 reporting-related standards or policies that were identified in the 45 reviewed countries were mandatory (UNEP, KPMG, GRI & Centre for Corporate Governance in Africa, 2013).

One of the most significant international developments is the recent adoption of a new European Union (EU) Directive on Corporate Reporting of Non-financial Information. In terms of this directive, large listed companies will be mandated in the future to report on environmental, social and employee matters, as well as matters relating to human rights, bribery and board diversity. In the words of the EU's Internal Market and Services Commissioner Michel Barnier:[121]

> *Companies, investors and society at large will benefit from this increased transparency. Companies that already publish information on their financial and non-financial performances take a longer term perspective in their decision-making. They often have lower financing costs, attract and retain talented employees, and ultimately are more successful.*

7.5.2 The business case for reporting

Corporate responsibility reporting is important because it is good for business and because it is the right thing to do. This is the classic argument of enlightened self-interest – doing well by doing good. As was described above, in the early years companies reported on so-called non-financial matters in order to appease stakeholders who wanted more information and complained heavily if it was not provided. Many companies who did this type of reporting did so not because they thought that it was material to business performance, but because they felt some moral obligation to do so or because they perceived a reputational risk if they did not.

[121] http://europa.eu/rapid/press-release_STATEMENT-14-124_en.htm, accessed 8 May 2014.

Today there is growing consensus that stakeholders, not only shareholders, have a legitimate interest in obtaining material information about company performance. This includes environmental, social and governance (ESG) information. Some companies recognise the moral imperative to provide this information, based on the fundamental governance values of honesty, transparency and accountability.

However, currently the main driver for reporting is the business case. Material information on company performance has to focus on both financial and non-financial information. In terms of the correlation between responsible business and corporate performance, the work on *shared value* by Porter has received significant attention, and in terms of integrated reporting, the work of Eccles has been very influential. For example, Eccles, Ionannou and Serafeim (2011) have demonstrated that what they call “high sustainability companies” significantly outperform their counterparts over the long term. Based on a detailed analysis of a sample of 180 companies, these authors state clearly that sustainable firms generate significantly higher profits and stock returns (Eccles *et al*., 2011: 30). In terms of the contributing factors that might provide this competitive advantage, they list a more engaged workforce, a more secure license to operate, a more loyal and satisfied customer base, better relationships with stakeholders, greater transparency, a more collaborative community, and a better ability to innovate (Eccles *et al*., 2011: 30). They also highlight the importance of measurement and disclosure, stating: “Reporting on performance measures, which are often non-financial regarding sustainability topics, to the board is an essential element of corporate governance, so that the board can form an opinion about whether management is executing the strategy of the organization well” (Eccles *et al*., 2011: 20).

By engaging in corporate responsibility reporting, companies benefit through improved understanding of the business model and better decision making, increased investor confidence, improved reputation and stakeholder support. Integrated reporting emphasises the link between management information and external communication, as well as the need for integrated thinking.

In a recent global survey conducted by Chatham House, major stakeholder groups identified the following five issues as the greatest benefits of sustainability reporting: data transparency, organisational governance, reporting universe (getting more organisations to think about sustainable development issues), stakeholder engagement, and data comparability (Hohnen, 2012).

7.5.3 The main role players

The main role players in this field can be divided into three groups: those who want companies to report (sometimes, but not always equivalent to the readers of reports), those who set the standards on what and how to report, and – of course – the reporting companies themselves. For the purpose of this document we will call these groups users, standard setters and reporters, respectively. Report users include a very wide variety of stakeholders, including investors, local communities and advocacy groups. Ironically, one of the most powerful stakeholder groups in terms of influencing behaviour (namely investors) has been less interested in corporate responsibility reporting. This position is changing as investors realise that ESG factors are becoming increasingly material to business success.

From the investors' point of view, two of the most significant groups that can influence reporting practices are stock exchanges and institutional investors. The stock exchanges that have been most active in terms of reporting include those from South Africa and Brazil, while the FTSE4Good Index in the UK and the Dow Jones Sustainability Index in the US have also improved disclosure. In this regard the Sustainable Stock Exchanges Initiative is also of particular importance.

From an institutional investor perspective, two of the most important initiatives are the UN Principles for Responsible Investment (UN PRI) and the International Corporate Governance Network (ICGN). Although the collective efforts from these initiatives are important, the individual efforts of members or signatories are just as significant.

For example, the Hermes Responsible Ownership Principles is an initiative of Hermes EOS, a signatory of the UN PRI and an active member of the ICGN. One of the Hermes principles explains its expectations of the companies it invests in, in terms of the management and disclosure of ESG issues: "Companies should manage effectively environmental and social factors that affect their business and society at large with a view to enhancing their long-term sustainability. They should demonstrate how they identify and explore related business opportunities and explain the structures and procedures in place to manage related risks" (Hermes Equity Ownership Services, n.d.: 11).

The standard-setting environment has become increasingly cluttered. In terms of reporting standards, the most important initiatives are the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). Table 25 provides basic information on a few of the main role players.

Table 25: The main role players

Users	Standard setters	Reporters
• UN Principles for Responsible Investment: www.unpri.org • International Corporate Governance Network: www.icgn.org – with specific reference to its Integrated Business Reporting Committee • Sustainable Stock Exchanges Initiative: www.sseinitiative.org • Individual responsible investment indices, e.g. DJSI, FTSE4Good, JSE SRI Index and Bovespa Corporate Sustainability Index, and the Public Investment Corporation's ESG Rating Index[122] • Local communities and advocacy groups	• Global Reporting Initiative: www.globalreporting.org • International Integrated Reporting Council: www.theiirc.org • Sustainability Accounting Standards Board: www.sasb.org/ • UN Global Compact: www.unglobalcompact.org • ISO 26000 Standard: www.iso.org • All governments who are regulating or consider regulating in this area – leading countries are Denmark and France, and the recent initiative of the European Union is of particular significance	• Leading reporting companies – e.g. those who participated in the IIRC pilot project and who are recipients of international reporting awards • Companies who deliberately build broader societal benefits into their business models, e.g. benefit corporations/B-Corps • Any other organisation that discloses sustainability information in some format

The role of investors is critical. The need for investors to have comparable and standardised data has been a major driver behind reporting standards. In an article that was published in the *Financial Times*, this point is highlighted by Michael Bloomberg and Mary Schapiro, respectively the newly appointed chairman and vice-chairman of the Sustainability Accounting Standards Board, who are quoted as saying: "Standardizing disclosure of sustainability information could bring significant financial benefits for shareholders and potential investors – and help strengthen the global economy's long-term health."[123]

7.5.3.1 The Global Reporting Initiative

Measurement and reporting remain critical from both a compliance and a stakeholder engagement point of view. Stakeholders legitimately expect corporations to report on their social, economic and environmental performance, by publishing the so-called triple bottom line. The term that has been used most often for this activity in the past is sustainability reporting, but it is increasingly referred to as corporate responsibility reporting or integrated reporting. In this chapter these terms will be used interchangeably.

The Global Reporting Initiative (GRI) is currently leading the field in terms of reporting guidelines for sustainability reporting. The mission of the GRI is to develop and disseminate globally applicable

[122] This index was developed jointly by the Public Investment Corporation and the Centre for Corporate Governance in Africa at the University of Stellenbosch Business School. More information is provided in Appendix I.
[123] http://www.ft.com/cms/s/0/0d9ccea6-db66-11e3-94ad-00144feabdc0.html#ixzz3450pIUC, accessed 8 June 2014.

sustainability reporting guidelines for voluntary use by organisations reporting on the economic, environmental, and social dimensions of their activities, products and services. This standard is important within the context of governance, since the elements of corporate social responsibility and sustainability are regarded as integral to sound corporate governance. The need to measure and report on any activity accurately is a key requirement for transparency, hence the importance of this standard. The GRI embraces the principles of transparency, inclusiveness, auditability, completeness, relevance, sustainability context, accuracy, neutrality, comparability, clarity and timeliness. In 2006 the GRI published its G3 Reporting Guidelines, comprising reporting principles; reporting guidance; a set of standard disclosures on strategy, company profile and management approach; and specific economic, social and environmental performance indicators. In May 2013 the GRI published its G4 Reporting Guidelines, describing the aim of G4 as follows: "to help reporters prepare sustainability reports that matter – and to make robust and purposeful sustainability reporting standard practice".[124]

The GRI has a special relationship with the UN Global Compact in terms of reporting. In a memorandum of understanding signed between the two bodies on 28 May 2010, the GRI committed itself to integrating the UN Global Compact principles in its next iteration of its *Sustainability Reporting Guidelines*. At the same time, the UN Global Compact adopted the GRI Guidelines as the recommended reporting framework for companies to communicate on their progress.[125]

Georg Kell, executive director of the UN Global Compact, said the following:[126]

> *As corporate responsibility has moved into the mainstream of business strategy and operations, the convergence of the two corporate responsibility initiatives with the broadest reach is a crucial development. Together, the Global Compact and GRI have a unique opportunity to provide a clear roadmap to sustainability and change business practices on a global scale.*

The guidelines that were produced by the GRI were published as part of its G4 Guidelines in 2013. An outline is presented in Table 26.[127]

[124] https://www.globalreporting.org/resourcelibrary/GRI-An-introduction-to-G4.pdf, accessed 24 November 2014.
[125] https://www.unglobalcompact.org/news/50-06-24-2010, accessed 24 November 2014.
[126] https://www.globalreporting.org/information/about-gri/alliances-and-synergies/Pages/UNGC-and-GRI.aspx, accessed 24 November 2014.
[127] https://g4.globalreporting.org/introduction/quick-links/Pages/default.aspx, accessed 24 November 2014.

Table 26: UN Global Compact Guidelines developed by GRI

UN Global Compact Principles, 2000	GRI Guidelines
Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights	Sub-Category: Human Rights (all Aspects) Sub-Category: Society • Local Communities
Principle 2. Businesses should make sure they are not complicit in human rights abuses	Sub-Category: Human Rights (all Aspects)
Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	G4-11 Sub-Category: Labor Practices and Decent Work • Labor/Management Relations Sub-Category: Human Rights • Freedom of Association and Collective Bargaining
Principle 4. Businesses should uphold the elimination of all forms of forced and compulsory labour	Sub-Category: Human Rights • Forced and Compulsory Labor
Principle 5. Businesses should uphold the effective abolition of child labour	Sub-Category: Human Rights • Child Labor
Principle 6. Businesses should uphold the elimination of discrimination in respect of employment and occupation	G4-10 Sub-Category: Labor Practices and Decent Work (all Aspects) Sub-Category: Human Rights • Non-discrimination
Principle 7. Businesses should support a precautionary approach to environmental challenges	Category: Environmental (all Aspects)
Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility	Category: Environmental (all Aspects)
Principle 9. Businesses should encourage the development and diffusion of environmentally friendly technologies	Category: Environmental (all Aspects)
Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery	Sub-Category: Society • Anti-corruption • Public Policy

Source: www.unglobalcompact.org

Hohnen (2010) provides a detailed analysis of the relationship between the UN Global Compact and the GRI. He summarises some of the constraints relating to both initiatives as follows: the majority of corporations in the world do not use them; there is a lack of consistent and clear research that demonstrates the beneficial impacts on company performance; communications suffer from vagueness (UN Global Compact) or excessive detail (GRI); there is a lack of resources to scale up activities and provide on-the-ground support; and there is a lack of support from the wider NGO community (Hohnen, 2010: 306).

The field of corporate reporting is developing rapidly and has resulted in conceptual confusion between sustainability reporting, integrated reporting, non-financial reporting, and environmental, social and governance (ESG) reporting. With a multitude of stakeholders (investors, regulators, civil society) all focusing on different aspects and highlighting different requirements, it has become a maze for both producers and consumers of corporate responsibility reports.

The GRI describes the link between sustainability reporting and integrated reporting as follows (Global Reporting Initiative, 2013: 85):

> *Sustainability reporting is a process that assists organizations in setting goals, measuring performance and managing change towards a sustainable global economy – one that combines long term profitability with social responsibility and environmental care. Sustainability reporting – mainly through but not limited to a sustainability report – is the key platform for communicating the organization's economic, environmental, social and governance performance, reflecting positive and negative impacts. … Integrated reporting is an emerging and evolving trend in corporate reporting, which in general aims primarily to offer an organization's providers of financial capital with an integrated representation of the key factors that are material to its present and future value creation. Integrated reporters build on sustainability reporting foundations and disclosures in preparing their integrated report. Through the integrated report, an organization provides a concise communication about how its strategy, governance, performance and prospects lead to the creation of value over time. Therefore, the integrated report is not intended to be an extract of the traditional annual report nor a combination of the annual financial statements and the sustainability report.*

7.5.4 Integrated reporting

An integrated report is defined by the International Integrated Reporting Council (IIRC) as "a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term".[128] The integrated report should not be confused with integrated *reporting*, which is defined as "a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation".[129]

A publication, *Making Investment Grade: the Future of Corporate Reporting* (Van der Lugt & Malan, 2012) has brought together the views of thought leaders in the field. One of them, Watson (2012: 15) argues that "[t]he weaknesses in reporting shown up by the financial crisis, as well as an increasing awareness of the impact of business on the natural environment and the long-term availability of

[128] http://www.theiirc.org, accessed 5 April 2014.
[129] http://www.theiirc.org, accessed 5 April 2014.

resources, have created the right environment for the advent of integrated reporting". According to her, the integrated report "will achieve its purpose when investors understand the strategic direction that the board is following, the successes in exercising the strategy, and the risks the company faces and how these influence strategy" (Watson, 2012: 16).

In the introduction to the publication, the editors explain that reporting preferences are often presented as opposites, but that the developments in terms of integration point to more suitable midways. Examples of opposites are: (Van der Lugt & Malan, 2012: 8):

> *[Q]uantitative versus qualitative information, core indicators versus additional indicators, historical information versus forward-looking information, input indicators versus output indicators, process indicators versus performance indicators, physical metrics versus financial metrics, micro level, local site versus macro level, aggregated data, tangible versus intangible asset values, internal (private) versus external (public) information, and direct versus indirect impact or dependence.*

The publication comprises various contributions by leading commentators and academics such as Bob Eccles, Paul Druckman, Simon Zadek, John Elkington and Mervyn King. The main points made by these and other authors are summarised by Van der Lugt in the concluding chapter of the book (Van der Lugt & Malan, 2012: 127-129).

In the case of financial reporting, investors and regulators drive reporting. In the case of sustainability reporting there is a wider range of interest groups, including sustainability experts, consultants, data compilers, researchers and rating agencies. Internally, key drivers are those with a special interest in finance or sustainability, as well as those tasked with the responsibility of overseeing and leading the process of reporting. The role of the board is also important. Because there are so many silos in most organisations, the creation of reporting integration teams is recommended.

To ask whether the reporting process should lead to the publication of one or multiple reports is the wrong question. What is likely to happen is that there will be a pyramid of communication tools with a concise integrated report at the top. This will be followed by a second layer of financial and sustainability data (either printed or online), as well as further layers that target specific audiences. The following statement is noteworthy: "The reporting pyramid also signals the importance for the integrated report at the top, to be not simply an object that displays superficially condensed information but really something that reflects a deeper quality information" (Van der Lugt & Malan, 2012: 130).

Determining materiality is not a simple, mechanistic decision. A more inclusive understanding of materiality, as opposed to the definition used in financial reporting, refers to the ability to make a judgement regarding the capacity of an organisation to create and sustain value.

The dominant assumption is that investors are the main target audience for integrated reporting. Regulation will be a key determinant of content and therefore also of the audience. If the integrated report becomes a legal document filled with disclaimers it will lose its value not only for investors, but also for other potential readers of the report.

Ultimately the board of directors has to govern the process of integrated reporting. Shareholder activism and more active engagement of citizens as providers of capital through pension funds will broaden the governance base.

Questions about regulation address the fundamental issue of the correct balance between mandatory requirements and market-driven innovation. The risk of excessive regulation is that it will lead to mindless, quantitative compliance. There are some early examples of innovative, hybrid systems combining smart regulation and self-regulation. Figure 49, developed by Van der Lugt , illustrates that the integrated report has to fill a space that neither sustainability reporting nor annual financial reporting has been able to capture effectively.

	Short term and backward looking	Long term and forward looking
Limited financial information	Generic public relations, corporate communications	Annual sustainability report(ing)
Extensive financial information	Annual financial report(ing)	Annual integrated report

Figure 49: Positioning the integrated report

Source: Van der Lugt & Malan, 2012: 134

7.6 Regulating responsibility

He who was so unjust as to do his brother an injury will scarce be so just as to condemn himself for it

John Locke

Written laws are like spiders' webs; they will catch, it is true, the weak and poor, but would be torn in pieces by the rich and powerful.

Anacharsis – 6th century BC

Figure 50: Regulating responsibility

7.6.1 Voluntary versus mandatory standards

With reference to the future regulation of the principles contained in the UN Global Compact, Rasche (2010) states that it would be naïve to believe that corporate responsibility should remain entirely voluntary. He suggests that the knowledge on social and environmental issues affects corporations and could be used to improve legislation throughout the world. This, according to him, will be a necessary next step to achieve the ambitious goals of the UN Global Compact (Rasche, 2010: 2).

Leisinger (2007: 4) makes the distinction between legitimacy and legality: "reliance on law alone triggers legalistic, compliance-based attitudes and, where the quality of law is inadequate, entails vulnerabilities even for corporations acting legally. Legitimate corporate conduct, by contrast, is being seen to do the right thing beyond legal minima."

McIntosh and Waddock (2010: 230) argue that progressive corporations around the world that align their practices with the values of the UN Global Compact have already gone beyond existing regulation and therefore are setting new standards. They suggest that the playing field has to be levelled at some stage and therefore that new regulation will be required. The authors make a significant point about the historical roots of the UN Global Compact:

> *Governments, after all, were the original signatories to the treaties from which the Global Compact's Principles derive, and they probably eventually will need to take a stronger role in enforcing these types of standards, particularly to deal with the numerous laggards who are not already up to speed with the types of changes needed.*

Since the crisis of 2008 there has been a shift in corporate views on the role of government in the economy. It is difficult to point fingers at government and accept a bailout at the same time. Today the need for strong government intervention is acknowledged by many. In the 2013 *UN Global Compact – Accenture CEO Study on Sustainability,* there is acknowledgement that large corporations cannot address current challenges on its own (United Nations Global Compact and Accenture, 2013). According to Peter Lacy from Accenture, the study suggests that "business may collectively have reached a plateau in the advancement of sustainability. Without radical, structural changes to markets and systems, CEOs believe, business may be unable to lead the way toward the peak of a sustainable economy" (United Nations Global Compact and Accenture, 2013: 5). For example, 85 per cent of CEOs surveyed in the study demand clearer policies and market signals from governments (United Nations Global Compact and Accenture, 2013: 13).

Governments have to regulate and enforce laws in the domestic sphere, but also coordinate globally through multilateral organisations to ensure that appropriate, compatible, fair and flexible regulations are in place across country borders. This will include the need for a fair amount of voluntary guidelines but – given the number of free riders – might increasingly focus on mandatory requirements.

Investors and other stakeholders should keep a keen eye on both governments and corporations, and encourage them to act responsibly. Of course, this is easier said than done. We live in a complex world where the lines between the public and private domains are blurred, where short-term expectations of voters or shareholders are often decisive, and where each individual decision maker is driven by the very human reality of looking after his or her own interests. In the famous words of Upton Sinclair: "It is difficult to get a man to understand something when his salary depends on his not understanding it."[130]

[130] http://www.goodreads.com/author/quotes/23510.Upton_Sinclair, accessed 21 December 2014.

Clearly there is a sense of urgency and a real risk that impatience will result in violence and disruption. Assertions about the supremacy of capital markets will increasingly evoke the image of a violin playing with smoke in the background. Even with increasing demands for rapid change, the realistic view is that progress will be incremental. The well-known historian, Tony Judt, was pragmatic in his advice on how to tackle the big issues of the 21st century (Judt, 2010: 224): "We need to apologize a little less for past shortcomings and speak more assertively of achievements. That these were always incomplete should not trouble us. If we have learned nothing else from the 20th century, we should at least have grasped that the more perfect the answer, the more terrifying its consequences. Incremental improvements upon unsatisfactory circumstances are the best that we can hope for, and probably all we should seek."

The debate about the correct balance – or choice – between voluntary and mandatory standards is a complex one that spans a wide variety of areas. In terms of sustainability reporting, research conducted by KPMG, UNEP, the GRI and the Unit for Corporate Governance (KPMG; UNEP; GRI, Unit for Corporate Governance in Africa, 2010: 4), highlights the following trends in terms of the general area of corporate responsibility regulation:

- Acknowledgement of the need for a more active role for the state to ensure risk prevention and disclosure;
- An emphasis on complementarity, i.e. a balance between voluntary and mandatory standards; and
- A focus on the integration of governance, financial and sustainability issues.

Regulation of corporate responsibility can focus on either performance or disclosure (or both). If the focus is on performance, the regulator will focus on specific compliance standards, e.g. the legal minimum wage, minimum employment age, levels of greenhouse gas emissions, etc. If the focus is on disclosure, there will be a specific requirement to disclose, either to the regulator or stakeholders in general, how the company performed (not necessarily in terms of compliance). Examples include compulsory disclosure of executive remuneration or time lost owing to work-related injuries. These areas are not mutually exclusive, and in many cases there can be strict performance as well as disclosure requirements.

One of the interesting balancing acts between a mandatory and voluntary approach is the "comply or explain" principle. Essentially this approach forms a hybrid between the different approaches as well as the focus areas. "Comply or explain" is mandatory, but leaves discretionary powers to the organisation to provide reasons for the cases where it decided not to comply. It also bridges the divide between performance and disclosure, because the compliance aspect is linked to actual performance, and the explanation (in the case of non-compliance) is a disclosure requirement.

The 2009 King Report on Corporate Governance in South Africa, more commonly known as King III (Institute of Directors in Southern Africa, 2009), introduced the concept of "apply or explain" as opposed to "comply or explain", as discussed earlier on page 155.

In his discussion on the Sullivan Principles for South Africa, a voluntary set of principles that regulated the behaviour of United States companies that operated in South Africa during the Apartheid period, Williams (2008: 433) mentions that these principles "were the first instance of a shift from state-centric regulation to a new form of regulation created and implemented by the private sector and civil society".

Because of the lack of a global regulator, most of the global standards tend to be voluntary. As the focus point of this dissertation, the UN Global Compact is clearly a very important standard. Some of the other voluntary standards that have already been discussed include the Global Reporting Initiative, the UN Principles for Responsible Investment and various governance codes, such as King III and the UK Corporate Governance Code. In addition, there are standards such as the International Organization for Standardization (ISO) 26000 Standard on Corporate Responsibility, the OECD Guidelines for Multinational Enterprises, the Millennium Development Goals (MDGs), and their replacement, the Sustainable Development Goals (SDGs). There are also the CERES Principles, SA 8000 and AA1000, but these will not be discussed in detail here because they are not presently as influential as the others.

All these initiatives are characterised by the fact that they are voluntary – this includes the MDGs from a corporate perspective (i.e. corporations may voluntarily adopt one or more of the MDGs) as opposed to the position of governments that have ratified these goals formally. Voluntarism is often used as a criticism against such initiatives, but such criticism fails to acknowledge the specific role these initiatives play within society.

When civil society organisations, for example, attacked the UN Global Compact a few years ago because of the association of one of its signatories (Petrochina) with the government of Sudan, Bart Slob from the Amsterdam-based Centre of Research on Multinational Corporations stated: "Without any effective monitoring and enforcement provisions, the UN Global Compact fails to hold corporations accountable."[131] This accusation misses the point that the UN Global Compact was not

[131] Press release by Investors Against Genocide and Act for Darfur, May 12, 2008.

created as an enforcement mechanism.[132] Just as Transparency International will not take countries to the International Court of Justice even if they find convincing evidence of grand corruption, it is not the role of the UN Global Compact actively to police compliance with its principles. In the same way the Global Reporting Initiative (discussed in the next section) is not required to prevent tobacco corporations or nuclear arms manufacturers from issuing sustainability reports. To be fair, the UN Global Compact does reserve the right to delist companies if there is evidence of "systematic or egregious abuse of the UN Global Compact's overall aims and principles", and if such companies do not respond to requests for engagement. The Petrochina case was the first real challenge for the Compact in this regard, and the board of directors ultimately decided not to act against Petrochina. It remains to be seen what will happen if a company is delisted for any reason other than non-communication, the most objective criterion that could be applied. It is possible that the floodgates will open in terms of NGOs and pressure groups accusing UN Global Compact signatories of misdemeanours. This is exactly what the UN Global Compact would like to prevent and certainly it does not at present have the capacity to cope with such demands. It is interesting to note the UN Global Compact's position in terms of tobacco corporations:[133]

> *The UN Global Compact Office supports the World Health Organization's efforts to raise awareness of the serious health effects of tobacco use. It thus actively discourages tobacco companies from participation in the initiative and does not accept funding from tobacco companies. It also does not permit tobacco companies to make presentations at any of its global events or to use the global brand in any other way to raise their profile. Since tobacco is a legal product whose use UN Member States have not yet outlawed, the Global Compact Office is not able to exclude tobacco companies from the initiative if they still wish to join. …Until Member States decide otherwise, tobacco companies should not be immune from the Global Compact's worldwide call to all companies to embrace, support and enact within their sphere of influence the set of core values in these areas. They should be expected to support and respect human rights, uphold labour standards, respect the environment and avoid corruption.*

Table 27 compares the main categories of a few selected standards. It indicates some overlap in terms of focus areas for the UN Global Compact, ISO 26000 and the OECD Guidelines, as well as a more specific focus on human rights elements from the MDGs. Given that the MDGs are first and foremost

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[132] The Global Compact reserves the right to engage with companies if there is evidence of "systematic or egregious abuse of the Global Compact's overall aims and principles". However, in this case the strongest sanction remains to list a company as non-communicative and ultimately to delist it if it does not respond to requests for information on the accusations of abuse.

[133] https://www.unglobalcompact.org/HowToParticipate/Business_Participation/tobacco_company_policy.html, accessed 18 December 2014.

a governmental initiative, this is to be expected. The following section will introduce these selected standards in further detail.

Table 27: Comparison between main categories of international standards

UN Global Compact	MDGs	ISO 26000	OECD Guidelines
Protection of internationally proclaimed human rights	Eradicate extreme poverty and hunger	Organisational governance	Concepts and principles
Non-complicity in human rights abuses	Achieve universal primary education	Human rights	General policies
Freedom of association and right to collective bargaining	Promote gender equality and empower women	Labour practices	Disclosure
Elimination of forced and compulsory labour	Reduce child mortality	The environment	Employment and industrial relations
Abolition of child labour	Improve maternal health	Fair operating practices	Environment
Elimination of discrimination	Combat HIV/AIDS, malaria and other diseases	Consumer issues	Combating bribery
Precautionary approach to environmental challenges	Ensure environmental sustainability	Community involvement and development	Consumer interests
Environmental responsibility initiatives	Develop a Global Partnership for Development		Science and Technology
Development and diffusion of environmentally friendly technologies			Competition
Work against corruption, including extortion and bribery			Taxation

7.6.1.1 The Millennium Development Goals

In addition to the UN Global Compact it is important to take cognisance of the UN Millennium Development Goals (MDGs). Companies that join the UN Global Compact are expected to enter, if possible, into partnerships to make a contribution to broad development objectives. The MDGs are to:

- *Eradicate extreme poverty and hunger;*
- *Achieve universal primary education;*
- *Promote gender equality and empower women;*
- *Reduce child mortality;*
- *Improve maternal health;*
- *Combat HIV/Aids, malaria and other diseases;*
- *Ensure environmental sustainability; and*
- *Develop a Global Partnership for Development*

From a corporate responsibility perspective, the final goal (a global partnership for development) is the most relevant. This creates the opportunity for corporations to align their own operations with one or more of the MDGs. The overlap between some of these goals and the UN Global Compact principles facilitates this process. In its assessment of progress made in this regard, the MDG Gap Task Force assessed progress with regard to the partnership goal. With regard to the goal of a global partnership for development, the task force highlighted the following lessons that have been learnt: there is a need to strengthen the link between this goal and other goals; there is a need for global monitoring of partnership initiatives; and the successor to the goal (in the Sustainable Development Goals) should be monitored periodically for continued relevance (MDG Gap Task Force, 2014: xi).

7.6.1.1.1 The Sustainable Development Goals

At the Rio+20 conference it was agreed by member states to launch the development of a set of Sustainable Development Goals (SDGs). The intention is that the SDGs will build on the MDGs and also converge with the post-2015 development agenda. This agenda has been driven by a group of eminent persons appointed by the UN secretary-general. In a report, *High-Level Panel of Eminent Persons on the post-2015 Development Agenda, 2013*, the group suggested the following five transformative shifts:

1. Leave no one behind;
2. Put sustainable development at the core;
3. Transform economies for jobs and inclusive growth;
4. Build peace and effective, open and accountable institutions for all; and
5. Forge a new global partnership.

The intergovernmental Open Working Group was created and it submitted a report with proposals to the 68th session of the UN General Assembly in 2013. The proposal of the Open Working Group (2014: 6) was that there should be 17 new Sustainable Development Goals, namely:

- *End poverty in all its forms everywhere;*
- *End hunger, achieve food security and improved nutrition and promote sustainable agriculture;*
- *Ensure healthy lives and promote well-being for all at all ages;*
- *Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all;*
- *Achieve gender equality and empower all women and girls;*
- *Ensure availability and sustainable management of water and sanitation for all;*
- *Ensure access to affordable, reliable, sustainable and modern energy for all;*
- *Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;*
- *Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation;*
- *Reduce inequality within and among countries;*
- *Make cities and human settlements inclusive, safe, resilient and sustainable;*
- *Ensure sustainable consumption and production patterns;*
- *Take urgent action to combat climate change and its impacts;*
- *Conserve and sustainably use the oceans, seas and marine resources for sustainable development;*
- *Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss;*
- *Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels; and*
- *Strengthen the means of implementation and revitalise the global partnership for sustainable development.*

Table 28 compares the MDGs to the proposed SDGs. It is noteworthy that the most comprehensive expansion has been in the area of environmental sustainability, while previous goals relating to health and child mortality have been consolidated into one goal to "ensure healthy lives and promote well-being for all at all ages". The use of the word "revitalise" with regard to the global partnership is significant. There seems to be implicit acknowledgement that this partnership has not been as effective as it could have been. Again, there are additional goals that provide more substance to this goal: specific reference is made to issues such as economic growth, employment and industrialisation, while the ethical principles of justice, accountability and inclusivity are also made explicit.

Table 28: Millenium Development Goals compared to Sustainable Development Goals

Millenium Development Goals	Sustainable Development Goals (re-arranged)
• **Eradicate extreme poverty and hunger.**	• End poverty in all its forms everywhere. • End hunger, achieve food security and improved nutrition, and promote sustainable agriculture. • Reduce inequality within and among countries.
• **Achieve universal primary education.**	• Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
• **Promote gender equality and empower women.**	• Achieve gender equality and empower all women and girls.
• **Reduce child mortality.** • **Improve maternal health.** • **Combat HIV/Aids, malaria and other diseases.**	• Ensure healthy lives and promote well-being for all at all ages.
• **Ensure environmental sustainability.**	• Ensure availability and sustainable management of water and sanitation for all. • Ensure access to affordable, reliable, sustainable and modern energy for all. • Make cities and human settlements inclusive, safe, resilient and sustainable. • Ensure sustainable consumption and production patterns. • Take urgent action to combat climate change and its impacts. • Conserve and sustainably use the oceans, seas and marine resources for sustainable development. • Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss.
• **Develop a Global Partnership for Development.**	• Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. • Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation. • Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable and inclusive institutions at all levels. • Strengthen the means of implementation and revitalise the global partnership for sustainable development.

7.6.1.2 The ISO 26000 standard

The International Organization for Standardization (ISO) is an independent, non-governmental membership organisation based in Geneva, Switzerland. ISO is the largest developer of voluntary international standards in the world, and is made up of the national standards bodies from 165 member countries.[134]

In 2010 the ISO launched its standard on social responsibility. ISO 26000:2010 is not a certifiable standard, but provides guidance on the concept of social responsibility. Its aim is to help organisations regardless of their activity, size or location. The launch followed a five-year period of intensive stakeholder engagement, involving governments, industry representatives, consumer groups and labour organisations. The standard is not publicly available, but is sold for CHF198 (approximately R2 200) by the ISO. It was last reviewed in 2014. Figure 52 provides a schematic overview of ISO 26000.

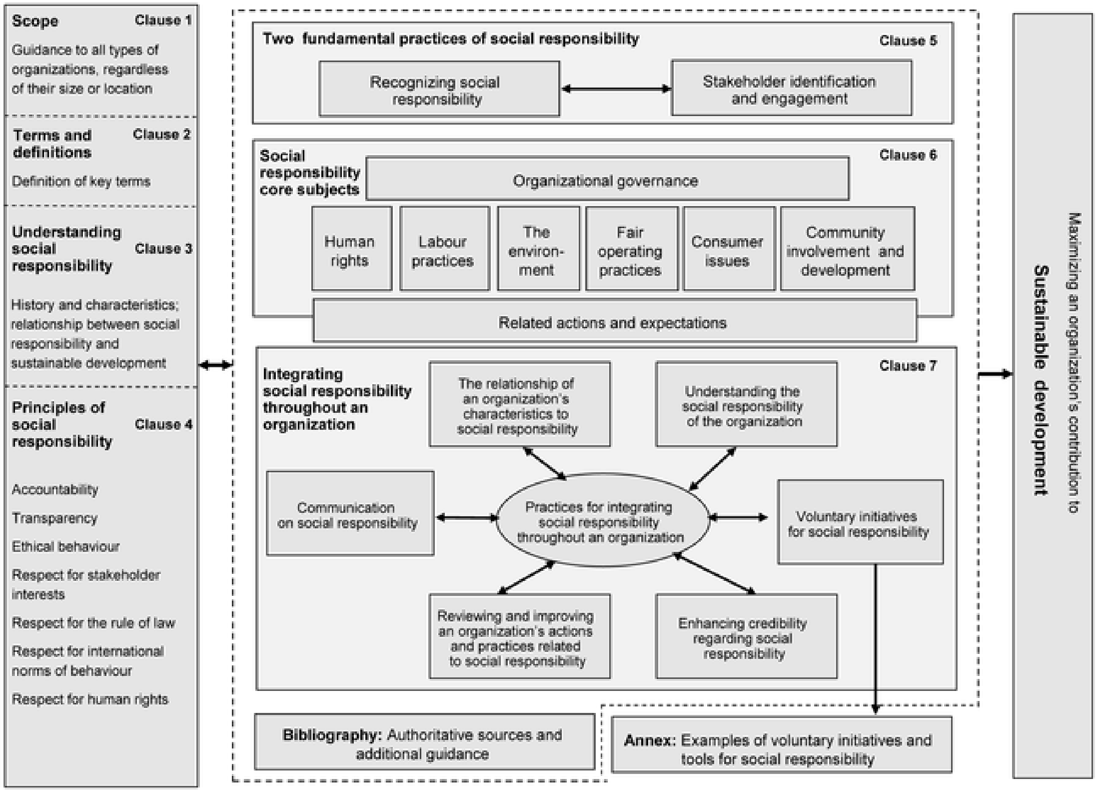

Figure 51: Schematic overview of ISO 26000

Source: www.iso.org

ISO 26 000 provides guidance on the following aspects:[135]

- Concepts, terms and definitions related to social responsibility;
- The background, trends and characteristics of social responsibility;
- Principles and practices relating to social responsibility;

[134] More information is available at www.iso.org.
[135] http://www.iso.org/iso/home/store/catalogue_tc/catalogue_detail.htm?csnumber=42546, accessed 24 November 2014.

- The core subjects and issues of social responsibility;
- Integrating, implementing and promoting socially responsible behaviour throughout the organisation and, through its policies and practices, within its sphere of influence;
- Identifying and engaging with stakeholders; and
- Communicating commitments, performance and other information related to social responsibility.

The following recommendation of the ISO seems to be in line with the ISCT requirement of moral free space:[136]

> *In applying ISO 26000:2010, it is advisable that an organization take into consideration societal, environmental, legal, cultural, political and organizational diversity, as well as differences in economic conditions, while being consistent with international norms of behaviour.*

It is difficult to gauge the usage of ISO 26000 among corporations. At a meeting that was convened by ISO in 2012, it was mentioned that a Google search returned 2 million hits,[137] but no mention of the number of companies actually using it.

Figure 53 presents the mapping of the same dilemmas used before, this time mapped against the seven core subjects of the ISO 26000 standard. Fair operating practices (which include corruption issues) remain the most relevant category from an individual ethical dilemma perspective. The more detailed structure of the ISO 26000 standard enables a more sophisticated understanding of individual ethical dilemmas. Labour practices also feature significantly, while the more specialised areas (human rights and environment) do not result in many dilemmas at the individual level.

[136] http://www.iso.org/iso/home/store/catalogue_tc/catalogue_detail.htm?csnumber=42546, accessed 24 November 2014.
[137] http://www.iso.org/iso/home/news_index/news_archive/news.htm?refid=Ref1691, accessed 24 November 2014.

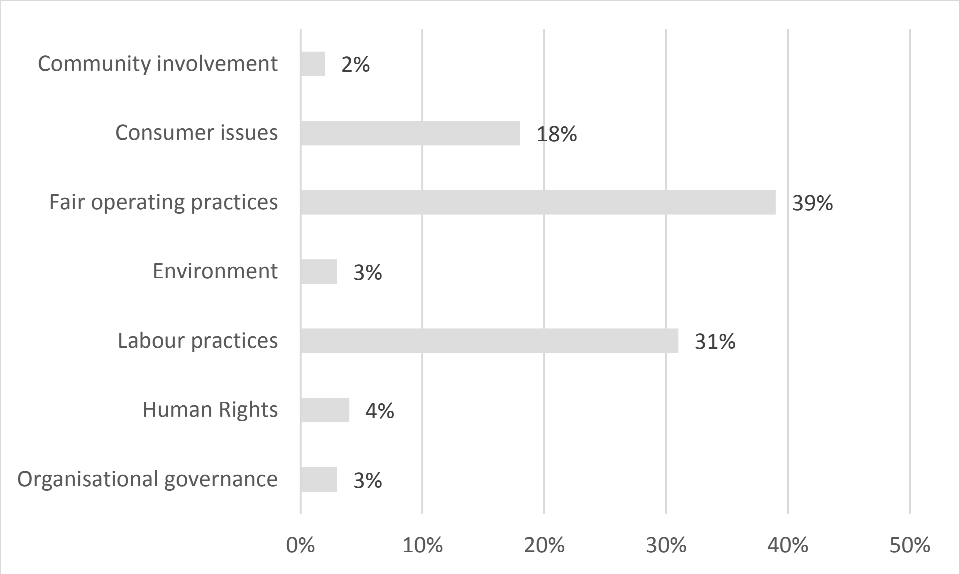

Figure 52: Dilemmas mapped against ISO 26000 categories

7.6.1.3 OECD Guidelines for Multinational Enterprises

The Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises (the Guidelines) provide "non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards" (OECD, 2011: 3).[138] The current version of the Guidelines was released in 2011 and endorsed by all OECD members as well as Argentina, Brazil, Egypt, Latvia, Lithuania, Morocco, Peru and Romania. The original version was launched in 1976 and has been reviewed five times.

The Guidelines provide voluntary principles and standards for responsible business conduct in the following areas: human rights, employment and industrial relations, environment, combating bribery, bribe solicitation and extortion, consumer interests, science and technology, and competition. A general set of policies contained in the Guidelines has been included in Appendix E.

In concluding the discussion on regulation, it needs to be admitted that this section has barely scratched the surface in terms of the plethora of both voluntary and mandatory standards and regulations available worldwide. Compliance with mandatory standards will always be the starting point, and it will only be in the rarest of circumstances – where an argument can be made for moral obligation – to disregard mandatory standards. Repudiating a mandatory standard would be the corporate equivalent of civil disobedience, but would be applicable in cases where the legal framework itself is morally unacceptable, e.g. the laws that existed under Apartheid South Africa. From a human rights perspective, this argument is also relevant for transgressing corporations operating in China.

[138] For background information on the OECD, visit www.oecd.org.

In terms of voluntary standards, corporations need to make a selection based on alignment with their own values, regional and industry requirements, as well as the interest and demands of stakeholders. The UN Global Compact is the world's largest initiative in this space, but that does not mean that corporations should therefore automatically jump on this bandwagon. On the contrary, it has been shown that participation in the initiative brings with it huge responsibilities, and to safeguard the reputation of the initiative itself as well as that of participants, the decision to participate should not be taken lightly.

7.6.2 Conclusion

This chapter introduced a conceptual framework with the aim of assisting corporations to conceptualise, develop and implement effective corporate responsibility programmes. It outlined, in sequence, the dimensions of understanding, taking, governing, managing, reporting on, and regulating responsibility. The framework is aligned with both ISCT and supports all the UN Global Compact requirements, although it can be applied more widely. Examples of the alignment with ISCT include the following: linking the moral case for corporate responsibility (understanding responsibility) with the acceptance of hypernorms; linking ethical leadership (taking responsibility) with the need to engage with moral fee space; linking the management and governance of responsibility with the need to design and implement micro contracts; linking integrated thinking, transparency and disclosure (reporting on responsibility) with the integrative nature of ISCT; and linking regulation (both voluntary and mandatory) with the need for consensus and partnerships, concepts which ultimately underpin the need for a hypothetical macro-social contract.

With regards to the UN Global Compact requirements, it was pointed out that the initiative itself forms part of the voluntary regulatory dimension. The framework also accommodates the specific requirements of a CEO commitment (taking responsibility); it supports the guidance provided by the UN Global Compact through its differentiation programme (governing and managing responsibility) and makes provision for the COP requirement (reporting on responsibility).

With each of these required activities things can, and do, go wrong. Insincere chief executives can produce lofty statements of intent while doing the exact opposite; poor governance practices can reduce accountability and impede performance; poor management can result in ineffective action or complete lack thereof; and poor reporting practices can reduce transparency and impact negatively on reputation.

The framework proposed in this chapter guides action in every dimension of corporate responsibility. It is not a once-off, grand solution that will guarantee success. However, it does bring the evasive components of theory and practice a little closer to each other, and it provides additional backup for the broader project started by Donaldson and Dunfee, that is to end the methodological standoff between the normative and empirical camps in business ethics theory.

Chapter 8: Conclusion

8.1 Conclusion

Johan de Witt, represented by the threatened swan in Asselijn's painting which was discussed in the introduction, died in 1672, twenty years after his appointment as the most powerful public servant in Holland. In that year, both England and France attacked Holland at the same time, and an angry mob in The Hague killed both Johan and his brother Cornelius in gruesome fashion, as depicted in a painting by an unknown painter: [139]

Figure 53: The bodies of the De Witt brothers, hanged at Groene Zoodje on Vijverberg in The Hague, circa 1672–1701 (painter unknown)

Courtesy: Rijksmuseum, Amsterdam

[139] For a more detailed description of this event, view http://www.rijksmuseum.nl/aria/aria_assets/SK-A-15?lang=en&context_space=aria_encyclopedia&context_id=00047624, accessed 15 October 2010.

Ironically, Asselijn's swan was not killed by the dog, but by those whose interests the swan was supposed to protect, namely the hatchlings from the eggs in the painting. In a further historical twist, the swan became the aggressor at the expense of the dog. Holland invaded England in 1688 and Prince William of Orange became the King of England in April 1689, and was affectionately known to some as "King Billy".[140]

What is the fate of the UN Global Compact? Given the multicentric governance structure for which the organisation has opted, there is always the chance that it could be killed by its own off-spring. However, that seems unlikely for a number of reasons.[141]

Firstly, the principles on which the UN Global Compact was founded are becoming more mainstream by the day. Consider the top ten trends identified for 2015 by the World Economic Forum's Global Agenda Councils:[142]

1. Deepening income inequality;
2. Persistent growth in joblessness;
3. Lack of leadership;
4. Rising geostrategic competition;
5. The weakening of representative democracy;
6. Rising pollution in the developing world;
7. Increasing occurrence of severe weather events;
8. Intensifying nationalism;
9. Increasing water stress; and
10. Growing importance of human health to the economy.

The 10 UN Global Compact principles underpin all these trends – either directly or indirectly. Corporations have a critical role to play in dealing with these trends, which will also increasingly be framed by the new Sustainable Development Goals. It is therefore likely that an increasing number of corporations will embrace the UN Global Compact principles.

Secondly, the opponents of the UN Global Compact are not part of the initiative. There are certainly free riders, but by definition they will not play an active role. Opposition will come from the outside, not the inside. Opposition and apathy might impede the growth aspirations of the UN Global Compact, but will not threaten its existence in any major way.

[140] http://en.wikipedia.org/wiki/William_III_of_England, accessed 5 December 2014.
[141] Of course, there is always the possibility of a black swan!
[142] http://reports.weforum.org/outlook-global-agenda-2015/, accessed 6 December 2014.

Finally, the UN Global Compact is not a static organisation. Over the first 15 years of its existence it started many new initiatives, such as its differentiation programme, the CEO Water Mandate, Caring for Climate, Business for Peace, UN Principles for Responsible Management Education, UN Principles for Responsible Investment, and even added a 10th principle (anti-corruption) to its former staple of nine. It is assumed that the leadership of the organisation – both present and future – will continue to assess the strengths and weaknesses of the initiative and adapt to changing circumstances. With the full backing of the United Nations as well as the support of the core corporate membership, it has the power to make a real difference.

It is important to revisit the requirements for participants in the UN Global Compact. The first requirement is that participants should make the UN Global Compact and its principles an integral part of their business strategy, day-to-day operations and organisational culture. In addition, there is an emphasis on the inclusion of the principles at the level of board decision making, as well as on the contribution to broader development goals through partnerships. The need to report on these activities through COPs is the most visible requirement, though it remains only a secondary requirement.

It can be argued that the approximately fifty participants in the LEAD programme come closest to meeting these requirements. The twenty South African participants that were assessed in Chapter 6 performed solidly, but not exceptionally. Eskom is the only South African corporation that is part of the LEAD programme and, as was illustrated, there are quite a few question marks about whether it deserves to be mentioned as an example of best practice.

In conclusion, two things remain to be done. The first is to recap the main argument proposed in this dissertation, and the second is to assess the scientific contribution that was made in this regard.

8.2 Recapping the main argument

The UN Global Compact is the largest voluntary corporate responsibility initiative in the world. Its popularity can be linked to the convening power of the United Nations, but is also indicative of a growing understanding of, and support for, the moral purpose of business. Williams (2014: 1) states that “we are in the midst of a major paradigm shift in our understanding of the purpose of business.” The purpose of business is articulated by the concept of corporate responsibility, which encapsulates the idea that the corporation bears moral responsibility that relates to its entire impact on society to which it has to make a positive contribution, thus extending its focus beyond its shareholders and the exclusive pursuit of short-term profit.

Empirical research can provide evidence that this shift is taking place, but it cannot provide the moral argument to convince corporations to join the trend. In fact, the nature of empirical research is mostly geared towards proving the business case, because there is an enormous amount of data available to examine the correlation between corporate responsibility indicators and financial performance. Although this type of research remains trapped in the business case approach, it is powerful and does change behaviour. However, the limitation to this approach is that it does not provide an acceptable solution for situations where the business case and the moral case are not neatly aligned.

Based on social contract theory and aligned with stakeholder theory, ISCT was presented as a normative theory that tries to bridge the methodological gap between normative and empirical approaches. It was argued that the application of ISCT to the UN Global Compact can increase its efficacy. Donaldson's contribution (2003), his only specific writing on the UN Global Compact, was criticised because it relies too heavily on the business case. ISCT requires corporations to start out with a different understanding of the moral purpose of the corporation.

The application of ISCT to the UN Global Compact involved the positioning of the 10 principles as hypernorms, which form the overall framework within which appropriate actions and programmes (micro contracts) could be developed. Local networks, collective action and individual company behaviour were discussed as good examples of micro contracts within the ISCT framework.

Finally, a conceptual framework was presented, with the aim of assisting corporations to conceptualise, develop and implement effective corporate responsibility programmes. Any corporation can apply this framework; participation in the UN Global Compact is not a precondition. The framework outlined, in sequence, the dimensions of understanding, taking, governing, managing, reporting on, and regulating responsibility. This framework was developed with the ISCT container as a point of departure, and is therefore fully aligned with the core normative elements of ISCT. Examples include the acceptance of hypernorms to fully understand responsibility, active engagement with moral free space when taking responsibility to make sense at a local level, the development of micro contracts in the governance and management of responsibility, and applying integration in the activity of reporting. Finally, it was demonstrated how international treaties are based on hypernorms, and how local legislation and other standards could be interpreted as micro contracts. There is one more similarity between the entire framework and ISCT, and that can be described by the word 'integrative'. The framework contains a normative component (understanding responsibility, and to some degree taking responsibility), as well as empirical components (governing, managing and reporting on responsibility). The empirical parts on their own are not sufficient because they can only be captured in a descriptive way. They become more meaningful if they are framed by the normative components.

The links between the framework and the UN Global Compact were also illustrated. The UN Global Compact is a form of self-regulation, which requires corporations not only to understand responsibility, but to *take* responsibility. It provides guidance to boards and managers on how to implement its 10 principles through proper governance and management, and it requires signatories to report on responsibility through COPs.

From a governance perspective, the framework is also aligned with the core governance principles of honesty (understanding and taking responsibility), accountability (governing and managing responsibility) and transparency (reporting on responsibility).

It was argued in chapter 7 that the framework brings the evasive components of theory and practice a little closer to each other and also supports the project to end the methodological standoff between the normative and empirical camps in business ethics theory.

8.3 Summary of scientific contributions

The main research question that was posed in this study is:

- To what extent can Integrative Social Contracts Theory (ISCT) support a more nuanced understanding of the UN Global Compact?

The application of ISCT to the UN Global Compact positions the 10 principles as hypernorms. It also involves a reversal of the process of theoretical application, which is an important adaptation of the application of ISCT. As opposed to the traditional ISCT application of decision making in response to a specific ethical dilemma, the proposed application involves recognition of the hypernorms as an overall framework on which appropriate actions and programmes (micro contracts) can be based. Within the context of the UN Global Compact, local networks, collective action and individual company behaviour provide good examples of such application.

In addition, the following secondary question was posed:

- To what extent – with reference to ISCT – do South African corporations that are active participants in the UN Global Compact take local conditions into account when implementing and communicating on the 10 principles of the UN Global Compact?

The analysis that was performed indicated that it is possible to apply an ISCT framework to UN Global Compact-related activities. Although the results are not statistically significant, they support the initial premise that limited examples of moral free space and a focus on local complexities would be found.

Finally, the significance of the conceptual framework lies in a combination of scientific rigour and managerial relevance. It has a strong theoretical underpinning, while also being readily accessible to practitioners. It is practitioners who will make most of the decisions that will have an impact on upholding human rights, remediating labour issues, safeguarding the environment and fighting corruption. It is therefore of critical importance that practitioners are engaged, not only through their actions, but also as participants in the debate.

8.4 Where to from here?

Despite the best attempts of an ISCT application, the reality is that the divisions between normative and empirical approaches run deep, and will continue to do so for some time. If the transition from 'is' to 'ought' remain methodologically elusive, perhaps a pragmatic compromise would be to derive a 'could' from an 'is'. Something that 'could be' is based on possibility, and does not necessarily have to be grounded in either a moral case or a business case. It is aspirational and might be a much more effective rallying cry to inspire corporations and other stakeholders. It is in line with Freeman's (2002: 44) description of stakeholder theory as "a genre of stories about how we could live". There is remarkable consensus today about what is wrong with the 'is'. To dream about what could be, allows an amount of free space – no consensus is required. But shared dreams can be very powerful, and shared stories about successes achieved can act as inspiration, as long as they lead to action.

After 15 years, the UN Global Compact is at a critical moment in its history, and hopefully the contents of this dissertation can make a contribution to determine its future strategy. In June 2015 the UN Global Compact appointed Lise Kingo as the new executive director to succeed Georg Kell, who has been involved from the inception of the UN Global Compact and who was a key architect of the initiative. Incorporating the ISCT approach into its medium to long-term strategy could potentially have the desired effect of ensuring that the UN Global Compact achieves scale without compromising quality.

Another direct application of this research is through the World Economic Forum's New Social Covenant project. The writer will spend 25 per cent of his time during 2015 working as a consultant to the Forum's Global Agenda Council on Values. Two pilot projects (one in South Africa and one with global corporations) will focus on a very similar problem (how to apply universal ethical principles in a way that ensures local impact), and the results will be documented in a publication to be launched in 2016.

Society and all that takes place within it – including business operations – are messy and complex. There is no final answer. The UN Global Compact offers a comprehensive container through the principles on human rights, labour, environment and anti-corruption. The solutions will not be in the form of signatures, but in the form of micro contracts, through which *actual* behaviour can be governed, managed, measured and reported on, and regulated.

This is a huge task, but in the words of Donaldson (2003: 70): "[T]he remarkable ambitiousness of the Compact project is matched only by the remarkable stakes it holds for all of us."

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Appendices

Appendix A: Address of Kofi Annan to the World Economic Forum (1999)

SECRETARY-GENERAL PROPOSES GLOBAL COMPACT ON HUMAN RIGHTS, LABOUR AND ENVIRONMENT, IN ADDRESS TO WORLD ECONOMIC FORUM IN DAVOS

The following is the address of Secretary-General Kofi Annan to the World Economic Forum in Davos, Switzerland, on 31 January 1999:

I am delighted to join you again at the World Economic Forum. This is my third visit in just over two years as Secretary-General of the United Nations.

On my previous visits, I told you of my hopes for a creative partnership between the United Nations and the private sector. I made the point that the everyday work of the United Nations – whether in peacekeeping, setting technical standards, protecting intellectual property or providing much-needed assistance to developing countries – helps to expand opportunities for business around the world. And I stated quite frankly that, without your know-how and your resources, many of the objectives of the United Nations would remain elusive.

Today, I am pleased to acknowledge that, in the past two years, our relationship has taken great strides. We have shown through cooperative ventures – both at the policy level and on the ground – that the goals of the United Nations and those of business can, indeed, be mutually supportive.

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.

Globalization is a fact of life. But I believe we have underestimated its fragility. The problem is this. The spread of markets outpaces the ability of societies and their political systems to adjust to them, let alone to guide the course they take. History teaches us that such an imbalance between the economic, social and political realms can never be sustained for very long.

The industrialized countries learned that lesson in their bitter and costly encounter with the Great Depression. In order to restore social harmony and political stability, they adopted social safety nets and other measures, designed to limit economic volatility and compensate the victims of market failures. That consensus made possible successive moves towards liberalization, which brought about the long post-war period of expansion.

Our challenge today is to devise a similar compact on the global scale, to underpin the new global economy. If we succeed in that, we would lay the foundation for an age of global prosperity, comparable to that enjoyed by the industrialized countries in the decades after the Second World War. Specifically, I call on you – individually through your firms, and collectively through your business associations – to embrace, support and enact a set of core values in the areas of human rights, labour standards, and environmental practices.

Why those three? In the first place, because they are all areas where you, as businessmen and women, can make a real difference. Secondly, they are areas in which universal values have already been defined by international agreements, including the Universal Declaration, the International Labour Organization's Declaration on fundamental principles and rights at work, and the Rio Declaration of the United Nations Conference on Environment and Development in 1992. Finally, I choose these three areas because they are ones where I fear that, if we do not act, there may be a threat to the open global market, and especially to the multilateral trade regime.

There is enormous pressure from various interest groups to load the trade regime and investment agreements with restrictions aimed at preserving standards in the three areas I have just mentioned. These are legitimate concerns. But restrictions on trade and investment are not the right means to use when tackling them. Instead, we should find a way to achieve our proclaimed standards by other means. And that is precisely what the compact I am proposing to you is meant to do.

Essentially there are two ways we can do it. One is through the international policy arena. You can encourage States to give us, the multilateral institutions of which they are all members, the resources and the authority we need to do our job.

The United Nations as a whole promotes peace and development, which are prerequisites for successfully meeting social and environmental goals alike. And the International Labour Organization, the United Nations High Commissioner for Human Rights and the United Nations Environmental Programme strive to improve labour conditions, human rights and environmental quality. We hope, in the future, to count you as our allies in these endeavours.

The second way you can promote these values is by taking them directly, by taking action in your own corporate sphere. Many of you are big investors, employers and producers in dozens of different countries across the world. That power brings with it great opportunities – and great responsibilities.

You can uphold human rights and decent labour and environmental standards directly, by your own conduct of your own business.

Indeed, you can use these universal values as the cement binding together your global corporations, since they are values people all over the world will recognize as their own. You can make sure that in your own corporate practices you uphold and respect human rights; and that you are not yourselves complicit in human rights abuses.

Don't wait for every country to introduce laws protecting freedom of association and the right to collective bargaining. You can at least make sure your own employees, and those of your subcontractors, enjoy those rights. You can at least make sure that you yourselves are not employing under-age children or forced labour, either directly or indirectly. And you can make sure that, in your own hiring and firing policies, you do not discriminate on grounds of race, creed, gender or ethnic origin.

You can also support a precautionary approach to environmental challenges. You can undertake initiatives to promote greater environmental responsibility. And you can encourage the development and diffusion of environmentally friendly technologies.

That, ladies and gentlemen, is what I am asking of you. But what, you may be asking yourselves, am I offering in exchange? Indeed, I believe the United Nations system does have something to offer.

The United Nations agencies – the United Nations High Commissioner for Human Rights, the International Labour Organization (ILO), the United Nations Environment Programme (UNEP) – all stand ready to assist you, if you need help, in incorporating these agreed values and principles into your mission statements and corporate practices. And we are ready to facilitate a dialogue between you and other social groups, to help find viable solutions to the genuine concerns that they have raised. You may find it useful to interact with us through our newly created website, www.un.org/partners, which offers a "one-stop shop" for corporations interested in the United Nations. More important, perhaps, is what we can do in the political arena, to help make the case for and maintain an environment which favours trade and open markets.

I believe what I am proposing to you is a genuine compact, because neither side of it can succeed without the other. Without your active commitment and support, there is a danger that universal values will remain little more than fine words – documents whose anniversaries we can celebrate and make speeches about, but with limited impact on the lives of ordinary people. And unless those values are really seen to be taking hold, I fear we may find it increasingly difficult to make a persuasive case for the open global market.

National markets are held together by shared values. In the face of economic transition and insecurity, people know that if the worst comes to the worst, they can rely on the expectation that certain minimum standards will prevail. But in the global market, people do not yet have that confidence. Until they do have it, the global economy will be fragile and vulnerable – vulnerable to backlash from all the "isms" of our post-cold-war world: protectionism; populism; nationalism; ethnic chauvinism; fanaticism; and terrorism.

What all those "isms" have in common is that they exploit the insecurity and misery of people who feel threatened or victimized by the global market. The more wretched and insecure people there are, the more those "isms" will continue to gain ground. What we have to do is find a way of embedding the global market in a network of shared values. I hope I have suggested some practical ways for us to set about doing just that.

Let us remember that the global markets and multilateral trading system we have today did not come about by accident. They are the result of enlightened policy choices made by governments since 1945. If we want to maintain them in the new century, all of us – governments, corporations, non-governmental organizations, international organizations – have to make the right choices now.

We have to choose between a global market driven only by calculations of short-term profit, and one which has a human face. Between a world which condemns a quarter of the human race to starvation and squalor, and one which offers everyone at least a chance of prosperity, in a healthy environment. Between a selfish free-for-all in which we ignore the fate of the losers, and a future in which the strong and successful accept their responsibilities, showing global vision and leadership.

I am sure you will make the right choice.

Appendix B: Active African companies in the UN Global Compact (March 2013)

Join date	Country	Organisation name	Sector
26/07/2000	South Africa	Eskom	Electricity
22/08/2001	South Africa	Sasol Ltd	Chemicals
31/08/2002	Ghana	Coca-Cola Bottling Company of Ghana Ltd	Beverages
14/07/2003	Mozambique	Millennium Bim	Financial Services
26/07/2003	Ghana	Interplast Ltd	General Industrials
04/08/2004	South Africa	AngloGold Ashanti Ltd	Mining
08/12/2004	South Africa	Barloworld	General Industrials
11/10/2005	South Africa	Nedbank Group	Financial Services
10/02/2006	South Africa	FirstRand	Financial Services
07/03/2006	Nigeria	MTN Nigeria Communications Ltd	Mobile Telecommunications
04/04/2006	Kenya	Mabati Rolling Mills	Industrial Metals & Mining
11/04/2006	Kenya	Eastern Produce Kenya Ltd	Food Producers
05/05/2006	Kenya	Safaricom Ltd	Mobile Telecommunications
22/09/2006	Ghana	Ghana Manganese Company Ltd	Industrial Metals & Mining
13/10/2006	Ghana	Unilever Ghana Ltd	Household Goods & Home Construction
13/10/2006	South Africa	Gold Fields Ltd	Industrial Metals & Mining
18/10/2006	Ghana	Stanbic Bank Ghana Ltd	Financial Services
30/01/2007	Uganda	Entebbe Handling Services Ltd	Travel & Leisure
13/02/2007	Kenya	Pwani Oil Products Ltd	Beverages
29/03/2007	South Africa	Deloitte South Africa	Support Services
15/05/2007	Ghana	GLICO GROUP Ltd	Financial Services
24/05/2007	South Africa	Exxaro Resources Ltd	Industrial Metals & Mining
23/08/2007	Kenya	Kenya Power	Electricity
11/12/2007	South Africa	Coca-Cola Sabco (Pty) Ltd	Beverages

Join date	Country	Organisation name	Sector
04/01/2008	Mauritius	Medine Ltd	Real Estate Investment & Services
09/01/2008	Mauritius	Rogers & Co. Ltd	Travel & Leisure
15/01/2008	South Africa	Unilever South Africa (Pty) Ltd	Beverages
23/01/2008	South Africa	Public Investment Corporation	Financial Services
13/02/2008	Namibia	FNB Namibia Holdings Ltd	Financial Services
19/02/2008	Malawi	Rab Processors Ltd	Food Producers
27/02/2008	South Africa	Sanlam Ltd	Financial Services
25/03/2008	South Africa	Sappi Ltd	Forestry & Paper
08/04/2008	South Africa	Impala Platinum Holdings Ltd	Industrial Metals & Mining
09/04/2008	Mauritius	Mauritius Commercial Bank Ltd	Financial Services
09/04/2008	South Africa	Richards Bay Coal Terminal Co. Ltd	Industrial Transportation
14/04/2008	South Africa	Pick n Pay	General Industrials
25/04/2008	Mauritius	Ceridian Mauritius Ltd	Software & Computer Services
25/04/2008	Mauritius	Ireland Blyth Ltd	General Retailers
28/05/2008	Cape Verde	Cabo Verde Telecom (CVTelecom)	Fixed Line Telecommunications
18/09/2008	South Africa	Mondi	Forestry & Paper
23/09/2008	Kenya	AAR Holdings Ltd	Health Care Equipment & Services
13/04/2009	Nigeria	Access Bank plc	Banks
07/07/2009	Nigeria	Oando plc	Oil & Gas Producers
06/10/2009	Kenya	Bidco Oil Refineries Ltd	Food Producers
17/12/2009	South Africa	Allied Electronics Corporation Ltd	Electronic & Electrical Equipment
28/01/2010	Tanzania, United Republic of	A to Z Textile Mills Ltd	Health Care Equipment & Services
01/04/2010	Kenya	Scangroup Ltd	Media
09/06/2010	Nigeria	Dangote Group	Construction & Materials

Join date	Country	Organisation name	Sector
10/06/2010	Sudan	Sayga Investment Company Ltd	Food Producers
28/06/2010	Uganda	Standard Chartered Bank Uganda Ltd	Banks
21/09/2010	Uganda	Fiduga Ltd	Forestry & Paper
14/02/2011	Nigeria	El-Yah-Agla Nigeria Ltd	Financial Services
21/03/2011	Kenya	PKF Kenya	Financial Services
20/10/2011	South Africa	Edcon	General Retailers
15/12/2011	Togo	Ecobank Transnational Inc.	Banks
06/03/2012	Kenya	Kapa Oil Refineries Ltd	Food Producers
27/03/2012	South Africa	Cliffe Dekker Hofmeyr Inc.	Financial Services
23/04/2012	Kenya	English Press Ltd	Support Services
18/05/2012	Kenya	East African Breweries Ltd (EABL)	Beverages
05/06/2012	South Africa	Royal Bafokeng Platinum Ltd	Mining
08/06/2012	South Africa	Tongaat Hulett	Food Producers
22/06/2012	Ghana	Electricity Company of Ghana	Electricity
25/07/2012	South Africa	Transnet SOC Ltd	Industrial Transportation
29/08/2012	South Africa	Oceana Group Ltd	Food Producers
11/10/2012	South Africa	South African Express Airways SOC Ltd	Travel & Leisure
14/11/2012	South Africa	South African Airways	Travel & Leisure
12/12/2012	South Africa	MTN Group Ltd	Mobile Telecommunications
13/12/2012	South Africa	Netcare Ltd	Health Care Equipment & Services
13/12/2012	South Africa	Investec Group	Financial Services
17/12/2012	South Africa	South African Post Office	Fixed Line Telecommunications
27/12/2012	Cameroon	Global Centre for Compliance, Hazards and Disaster Management	Construction & Materials
17/01/2013	Seychelles	GoAGT Ltd	Aerospace & Defence
23/01/2013	Nigeria	First Bank of Nigeria Ltd	Banks

Join date	Country	Organisation name	Sector
11/02/2013	Gabon	Groupe BGFIBank	Banks
12/02/2013	South Africa	The South African Forestry Company	Forestry & Paper
15/03/2013	Kenya	Kenya Bixa Ltd	General Industrials

Appendix C: COP Analysis Questionnaire

Company name		
Country		
Website		
Participant for how long?	1: Less than one year 2: Between one and five years 3: More than five years	
Status	1: Active 2: Non-communicating	
Differentiation level	1: Learner 2: Active 3: Advanced	
Organisation type	1: Private 2: Public 3: Subsidiary 4: State-owned	
Number of Employees	1: Less than 200 2: Between 200 and 1 000 3: Between 1 000 and 10 000 4: More than 10 000	
Turnover in last financial year	1: Less than \$100 million 2: Between \$100 million and 1\$bn 3: Between 1\$bn and 5\$bn 4: More than 5\$bn	
CEO statement (as assessed by UNGC)	1: Yes 2: No	
Issue areas covered (as assessed by UNGC)	1: Zero from four 2: One from four 3: Two from four 4: Three from four 5: Four from four	
Measurement of outcome? (as assessed by UNGC)	1: Yes 2: No	

Assessment of general approach to corporate responsibility, based on analysis of COP and CEO statements (most recent as of 28 February 2013)					
	1	2	3	4	5
1. Company position in terms of corporate responsibility	Very strong business case, with almost no mention of moral case	Mix of business case and moral case, with an emphasis on business case	Mix of business case and moral case, with an emphasis on moral case	Very strong emphasis on moral case, with almost no mention of business case	N/A

2. Acknowledgement of global / local complexities	Very strong emphasis on global / universal values, little or no room for local flexibility	Strong emphasis on global / universal values, clear acknowledgement of need for local flexibility	Strong emphasis on need for local flexibility, clear acknowledgement of global / universal values	Very strong emphasis on need for local flexibility, little or no acknowledgement of global / universal values	N/A
3. Analysis of CEO statement	Exclusive focus on ethics of conviction	Emphasis on ethics of conviction, includes elements of ethics of responsibility	Emphasis on ethics of responsibility, includes elements of ethics of conviction	Exclusive focus on ethics of responsibility	N/A
4. Analysis of governance structure, as presented in COP	Exclusive focus on performance	Emphasis on performance, includes elements of conformance	Emphasis on conformance, includes elements of performance	Exclusive focus on conformance	N/A
5. Examples of collective action	None	Isolated examples but with no or little detail	Frequent examples but with no or little detail	Frequent examples with sufficient detail	N/A
6. Examples of moral free space	None	Isolated examples but with no or little detail	Frequent examples but with no or little detail	Frequent examples with sufficient detail	N/A
7. Overall assessment of COP	Mainly a public relations exercise	Mainly aimed at compliance with key UNGC requirements	Demonstrates a clear commitment to the UNGC, complies with all UNGC requirements	Demonstrates a clear commitment to the UNGC, complies with all UNGC requirements, deserves recognition as a best practice reporter	N/A

Coverage of main UNGC components (assessment based on analysis of COP, most recent as of 28 February 2013) 1: Very Poor: Component mentioned but no / almost no information provided 2: Poor: Component mentioned and supported by limited / generic information 3: Good: Component mentioned and supported by appropriate information; some evidence that stakeholder engagement and materiality criteria were applied 4: Very Good: Component mentioned and supported by appropriate information; conclusive evidence that stakeholder engagement and materiality criteria were applied 5: Not applicable: Component not mentioned					
8. Human Rights	1	2	3	4	5
9. Labour	1	2	3	4	5
10. Environment	1	2	3	4	5
11. Anti Corruption	1	2	3	4	5
The final section is based on guidance provided by Transparency International and the UN Global Compact (Reporting Guidance on the 10th Principle Against Corruption) **Coverage of Anti-Corruption Basic Reporting Elements (detailed assessment based on analysis of COP, most recent as of 28 February 2013)** 1: Not reported, 2: Reported in basic format, **3:** Reported with some detail, 4: Reported with extensive detail, 5: Not applicable					
12. Publicly stated commitment to work against corruption in all its forms, including bribery and extortion	1	2	3	4	5
13. Commitment to be in compliance with all relevant laws, including anti-corruption laws	1	2	3	4	5
14. Translation of the anti-corruption commitment into actions	1	2	3	4	5
15. Support by the organization's leadership for anti-corruption	1	2	3	4	5
16. Communication and training on the anti-corruption commitment for all employees	1	2	3	4	5
17. Internal checks and balances to ensure consistency with the anti-corruption commitment	1	2	3	4	5
Coverage of Anti-Corruption Desired Reporting Elements (detailed assessment based on analysis of COP, most recent as of 28 February 2013)					
18. Publicly stated formal policy of zero-tolerance of corruption	1	2	3	4	5
19. Statement of support for international and regional legal frameworks, such as the UN Convention against Corruption	1	2	3	4	5
20. Carrying out risk assessment of potential areas of corruption	1	2	3	4	5
21. Detailed policies for high-risk areas of corruption	1	2	3	4	5
22. Policy on anti-corruption regarding business partners	1	2	3	4	5

23. Actions taken to encourage business partners to implement anti-corruption commitments	1	2	3	4	5
24. Management responsibility and accountability for implementation of the anti-corruption commitment or policy	1	2	3	4	5
25. Human Resources procedures supporting the anti-corruption commitment or policy	1	2	3	4	5
26. Communications (whistleblowing) channels and follow-up mechanisms for reporting concerns or seeking advice	1	2	3	4	5
27. Internal accounting and auditing procedures related to anticorruption	1	2	3	4	5
28. Participation in voluntary anti-corruption initiatives	1	2	3	4	5
29. Leadership review of monitoring and improvement results	1	2	3	4	5
30. Dealing with incidents	1	2	3	4	5
31. Public legal cases regarding corruption	1	2	3	4	5
32. Use of independent external assurance of anti-corruption programmes	1	2	3	4	5

Appendix D: Rio+20: The Future We Want

The "Rio+20: The Future We Want" declaration was agreed on by governments at the Rio+20 Summit in 2012. Below is the first part of the 49-page declaration, outlining the common vision (United Nations, 2012):

The Future We Want

Our Common Vision

1. We, the heads of State and Government and high level representatives, having met at Rio de Janeiro, Brazil, from 20-22 June 2012, with full participation of civil society, renew our commitment to sustainable development, and to ensure the promotion of economically, socially and environmentally sustainable future for our planet and for present and future generations.
2. Eradicating poverty is the greatest global challenge facing the world today and an indispensable requirement for sustainable development. In this regard we are committed to free humanity from poverty and hunger as a matter of urgency.
3. We therefore acknowledge the need to further mainstream sustainable development at all levels integrating economic, social and environmental aspects and recognizing their interlinkages, so as to achieve sustainable development in all its dimensions.
4. We recognize that poverty eradication, changing unsustainable and promoting sustainable patterns of consumption and production, and protecting and managing the natural resource base of economic and social development are the overarching objectives of and essential requirements for sustainable development. We also reaffirm the need to achieve sustainable development by: promoting sustained, inclusive and equitable economic growth, creating greater opportunities for all, reducing inequalities, raising basic standards of living; fostering equitable social development and inclusion; and promoting integrated and sustainable management of natural resources and ecosystems that supports *inter alia* economic, social and human development while facilitating ecosystem conservation, regeneration and restoration and resilience in the face of new and emerging challenges.
5. We reaffirm our commitment to making every effort to accelerate the achievement of the internationally agreed development goals, including the Millennium Development Goals (MDGs) by 2015.

6. We recognize that people are at the center of sustainable development and in this regard, we strive for a world which is just, equitable and inclusive, and we commit to work together to promote sustained and inclusive economic growth, social development, environmental protection and thereby to benefit all.
7. We reaffirm that we continue to be guided by the purposes and principles of the Charter of the United Nations, and with full respect for international law and its principles.
8. We also reaffirm the importance of freedom, peace and security, respect for all human rights, including the right to development and the right to an adequate standard of living, including the right to food, the rule of law, gender equality and women's empowerment and the overall commitment to just and democratic societies for development.
9. We reaffirm the importance of the Universal Declaration of Human Rights, as well as other international instruments relating to human rights and international law. We emphasize the responsibilities of all States, in conformity with the Charter of the United Nations, to respect, protect and promote human rights and fundamental freedoms for all, without distinction of any kind to race, colour, sex, language or religion, political or other opinion, national or social origin, property, birth, disability or other status.
10. We acknowledge that democracy, good governance and the rule of law, at the national and international levels, as well as an enabling environment are essential for sustainable development, including sustained and inclusive economic growth, social development, environmental protection and the eradication of poverty and hunger. We reaffirm that to achieve our sustainable development goals we need institutions at all levels that are effective, transparent, accountable and democratic.
11. We reaffirm our commitment to strengthening international cooperation to address the persistent challenges related to sustainable development for all, in particular in developing countries. In this regard, we reaffirm the need to achieve economic stability and sustained economic growth, promotion of social equity, and protection of the environment, while enhancing gender equality and women's empowerment, and equal opportunities for all, and the protection, survival and development of children to their full potential, including through education.
12. We resolve to take urgent action to achieve sustainable development. We therefore renew our commitment to sustainable development, assessing the progress to date and the remaining gaps in the implementation of the outcomes of the major summits on sustainable development and addressing new and emerging challenges. We express our determination to address the themes of the Conference, namely a green economy in the context of sustainable development and poverty eradication, and the institutional framework for sustainable development.

13. We recognize that people's opportunities to influence their lives and future, participate in decision making and voice their concerns are fundamental for sustainable development. We underscore that sustainable development requires concrete and urgent action. It can only be achieved with a broad alliance of people, governments, civil society and private sector, all working together to secure the future we want for present and future generations.

Appendix E: OECD Guidelines for Multinational Enterprises

The following general policies are proposed by the OECD Guidelines for Multinational Enterprises (OECD, 2011: 19-20)

Enterprises should:

1. Contribute to economic, environmental and social progress with a view to achieving sustainable development.
2. Respect the internationally recognised human rights of those affected by their activities.
3. Encourage local capacity building through close co-operation with the local community, including business interests, as well as developing the enterprise's activities in domestic and foreign markets, consistent with the need for sound commercial practice.
4. Encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees.

2. Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to human rights, environmental, health, safety, labour, taxation, financial incentives, or other issues.
3. Support and uphold good corporate governance principles and develop and apply good corporate governance practices, including throughout enterprise groups.
4. Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate.
5. Promote awareness of and compliance by workers employed by multinational enterprises with respect to company policies through appropriate dissemination of these policies, including through training programmes.
6. Refrain from discriminatory or disciplinary action against workers who make *bona fide* reports to management or, as appropriate, to the competent public authorities, on practices that contravene the law, the *Guidelines* or the enterprise's policies.
7. Carry out risk-based due diligence, for example by incorporating it into their enterprise risk management systems, to identify, prevent and mitigate actual and potential adverse impacts as described in paragraphs 11 and 12, and account for how these impacts are addressed. The nature and extent of due diligence depend on the circumstances of a particular situation.

8. Avoid causing or contributing to adverse impacts on matters covered by the *Guidelines*, through their own activities, and address such impacts when they occur.
9. Seek to prevent or mitigate an adverse impact where they have not contributed to that impact, when the impact is nevertheless directly linked to their operations, products or services by a business relationship. This is not intended to shift responsibility from the entity causing an adverse impact to the enterprise with which it has a business relationship.
10. In addition to addressing adverse impacts in relation to matters covered by the *Guidelines*, encourage, where practicable, business partners, including suppliers and sub-contractors, to apply principles of responsible business conduct compatible with the *Guidelines*.
11. Engage with relevant stakeholders in order to provide meaningful opportunities for their views to be taken into account in relation to planning and decision making for projects or other activities that may significantly impact on local communities.
12. Abstain from any improper involvement in local political activities.

Appendix F: Additional examples of ethical dilemmas

The following 100 examples of real-life dilemmas collected from students and executives have been incorporated into an online ethical training programme, namely e-valuation™ by Just Managing Consulting.

1. You are the HR manager of a large company. Owing to a downturn in the economy, the company decides that no external appointments will be made for a period of twelve months. This is to avoid retrenchments. A regional director visits a local branch of the company and is so impressed with a temporary staff member that he offers her a permanent position on the spot. What do you do?
2. You are head of a department where copper cables are used in the production of electric panels. You become aware that some of the cables have been stolen by a seemingly trustworthy employee who has worked for the company for many years and has no previous disciplinary incidents on record. You know that this person has a large family and that her husband has recently been retrenched. What do you do?
3. You are the manager of a team of five and your performance bonus structure has changed. The payroll department did not change the formula and you and your five colleagues have just received a much higher bonus than you are entitled to. You have just noted this mistake. What do you do?
4. You are the marketing manager for a large company. In preparation for a team-building exercise one of your employees has sourced T-shirts with a well-known brand name at an excellent price. The shirts have already been ordered and printed, but not paid for. You have now been informed by someone else in your department that these products are fake goods that have been produced by child labour in a Chinese sweatshop. What do you do?
5. You are the supervisor of a large department and are responsible for performance appraisals. One of the people that report to you has been going through a difficult divorce and is struggling to make financial ends meet. She has coped particularly well during this period, but not well enough to deserve a performance bonus. She has qualified for the bonus for several years and you know that she needs the money more than ever before. What do you do?
6. You are the sole owner of a medium-sized company. You have a cousin who owns a cleaning business and has tendered for the contract to provide services at your company. His quote was

the second cheapest, and you cannot get proper references from the company which was the cheapest. You know that you will get quality service from your cousin. What do you do?

7. You have recently been appointed as a project manager on a very large contract. You become aware that your own company has employed private investigators to collect personal information on all your major suppliers for this contract. Upon enquiry, you are informed that this is done to provide 'insurance'. Should something go wrong with the commercial relationship, your company wants to have additional material to bargain with. What do you do?
8. You are responsible for the evaluation of tender documents for a large contract. At a compulsory site meeting where you meet the prospective tenderers you run into an old friend from school. He is the owner of one of the companies that is likely to put in a strong bid and he invites you for a drink after the meeting. You have not seen him for a long time and would really like to catch up on news. What do you do?
9. You work for a division of a large multinational company. You have identified an internal control weakness which will make it very easy for you to side-step some procedures and enable you to do your job with much less attention to detail. Although this will make your life a lot easier, potentially it can expose the firm to substantial risk. What do you do?
10. You are the production manager in a company that manufactures electrical products that are also exported to developing countries. Owing to a technical problem a batch of products has been manufactured with minor defects that will make them unsuitable for your local market. However, they still comply with the less strict safety standards of some of your export markets. In the past you have always sold exactly the same product in all markets. What do you do?
11. You have recently been appointed as a junior manager in the finance department. You have been asked to prepare a financial model for a potential project, but because you are new and were given a very tight deadline, you are not entirely convinced about the validity of some of the assumptions you have made. Your manager will sign off on the model and has already declined a request from you to work on the model for an extra day. The presentation to the client is tomorrow. What do you do?
12. You are the branch manager, working for a large bank in a small town. You are under pressure to save costs and have been approached by a company that provides recycling services. The company works on the basis of "cash, no invoice, no VAT" and the amount is small enough to pay from petty cash. What do you do?
13. You are an engineer who often has to work on site and has to stay in touch with clients. One of your colleagues is an "old school" engineer who has a very good relationship with all the clients, but does not have a cell phone. He has just been presented with a state of the art smartphone by

one of your clients, who stated the need to be able to contact him at all time is the business reason for giving him the phone. What do you do?

14. You work in the contracts department of a large organisation. One of your biggest clients is about to sign a deal for a mega contract and you need to assist him with preparing the paperwork. All the documentation has to be prepared urgently to be couriered to a meeting of all the global project partners. You have to sign off that you have seen certain original documentation that will not be included in the package, but unfortunately the client has left this documentation at the office and you have not seen it. You are aware of the existence of these documents, but you have no time to wait for their delivery. What do you do?
15. You drive a company car that is insured by the company, but in terms of the contract you have to pay the excess if the car is involved in an accident. If someone else drives the car you are still liable for the excess, but the amount is three times more expensive. You asked a colleague to use your car to deliver an important document to a client, and she was involved in an accident. What do you do?
16. You work for a company where you have to complete weekly time sheets. All the projects that you work on are fixed-fee arrangements, so the time sheet completion is merely for internal accounting purposes. However, your productivity is determined on the basis of your time sheets and your annual bonus depends on this. In most cases, your actual hours are much less than the hours you have been allocated on the project. What do you do?
17. You are working with a colleague on a major project for an important client. The client is billed on the basis of actual time spent. You are aware that your colleague is doing a lot of personal stuff (downloading applications, watching YouTube videos, etc.) and still charging a full day's work to the client. What do you do?
18. You are the team leader in a business unit. One of your major suppliers has just delivered a Christmas gift to all 15 members of the team. The gifts are within the policy limit of the company, but come in the wake of a strained relationship with the supplier over the last year. This supplier has never given gifts before and the contract of the supplier is up for renewal soon. What do you do?
19. You are a coach that has been appointed by a board of directors to coach the company CEO who has been underperforming. It is a one-year contract, but after the first three months little progress has been made. The chairman of the board has approached you with a lucrative offer – the board wants to fire the CEO and make you the new CEO with immediate effect. What do you do?

20. You work in an industry where commission paid to third party agents is strictly regulated. One of your most successful agents feels that this is not nearly enough and has approached you with a request to sponsor his agency's year-end conference. The amount is roughly equal to 20 per cent of all commission paid during the year. Although not stated explicitly, you know that the agent will move his business elsewhere if the company does not sponsor the conference. It is your decision to sponsor or not. What do you do?
21. You work for a retail company and have been appointed as the manager of a new store in a small town. During your first week in office you are contacted by the managers of the competitors' stores in the same town. They inform you what the going rate is for wages for unskilled labour in the town, which is substantially lower than the minimum wage that your company offers. They request you not to "upset the apple cart" by offering higher wages than the wages that they are presently paying. Paying lower wages will result in a substantial cost saving. What do you do?
22. You are the HR manager of a multinational company's subsidiary in a developing country. All the top positions in the firm are filled by expats and this has caused substantial unhappiness among local employees. They believe that the expats do not understand the local conditions and are being paid exorbitant salaries and benefits. You are an expat yourself, and struggle to find suitable local talent, and if you do they are in such demand that they are almost as expensive as expats. What do you do?
23. You are responsible for securing skilled staff to deliver highly technical modules for a new training programme. A consultant has submitted her CV and mentioned that she has just completed a similar assignment for a competitor. She clearly has some information that could improve the quality of your product and will help you to avoid pitfalls in the production process. What do you do?
24. You are a manager and have been monitoring the use of a colour printer and photocopier in the office. One individual has printed and copied approximately 10 times more than anyone else, and when you discuss it with him he states that he has been using the facilities on behalf of his church for a campaign to address drug abuse among teenagers. Using the printer for non-business purposes is prohibited, and could lead to disciplinary procedures. What do you do?
25. You are the project manager on a construction site in a developing country, where a clinic is being built with the aid of donor money. One day when you arrive on site everything is quiet. You are informed that a government official has halted construction because there is a problem with the approval of the building plans. A once-off payment directly to the official will resolve the problem and construction can then resume immediately. What do you do?

26. You become aware that two of your colleagues are involved in a relationship. You are also good friends with the partner of one of them, who approaches you with her suspicions. What do you do?
27. You are working in a large financial services company where the policy explicitly prohibits employees from taking on a second job of any kind. You have been offered a part-time position as a guide in a local astronomical observatory. Astronomy is your hobby and you want to do the job, not for the money but because you enjoy the work. What do you do?
28. You are the chairman of a medium-sized company. Board meetings are always dominated by the CEO who speaks all the time. Other directors are intimidated by the CEO, who was responsible for a turnaround at the company, and feel that they always have to agree with his suggestions. As chairman you are concerned that some of the decisions made by the CEO are not in the best interests of the company. What do you do?
29. You are the HR manager of a large company. One of the brightest young recruits in your company was involved in an accident and charged with driving under the influence of alcohol. One person was killed in the accident. The employee was acquitted based on insufficient evidence. This case was decided on a technical point, and it is your understanding that the employee would otherwise have been found guilty. This employee is due for promotion to become a manager and his behaviour has otherwise been exemplary. What do you do?
30. You have to adjudicate a tender. One of the tenderers contacted you a few months ago with the offer of an all-inclusive overseas trip to visit his company’s corporate head office. You declined the offer and made it clear at the time that the offer was against company policy and completely inappropriate. The company's tender now stands out head and shoulders above the others, both in terms of quality and price. What do you do?
31. You work for a supplier to a large developer who is building a golf estate close to an environmentally sensitive wetland. You have accidentally seen documentation that clearly points to the fact that the developer has misinformed the authorities about the impact of the development. However, as a supplier you are bound by a confidentiality clause. What do you do?
32. You are the communications manager of a large, listed company. You have confidential and potentially embarrassing information on the newly appointed CEO. This information relates to the personal behaviour of the individual many years ago and does not reflect on her ability to lead the company. However, it will affect the reputation of the company if the information became public. What do you do?
33. For many years you have been part of an informal network of senior managers in your company who play golf once a week. You regard this not only as a recreational activity, but also as an

opportunity to update each other on developments at work and to discuss the strategy of your biggest competitors. You have recently been approached by a woman in your department who has complained that this is a discriminatory practice. Because she does not play golf she feels excluded from the discussions and believes that this puts her at a disadvantage in the workplace. What do you do?

34. You are a member of the executive committee of your organisation. You have been copied on a confidential email from the CEO that contains derogatory remarks about a local politician, who happens to be a good friend of yours. What do you do?
35. You are a junior manager in your department. Your head of department has asked you to contact the maintenance staff and arrange for a technician to visit his house to fix his swimming pool pump. You know this is against company policy but at the same time you get the impression that this policy is ignored by most of the members of senior management. What do you do?
36. You are a junior manager in your department. A few months ago your supervisor made sexual advances to you. You confronted your supervisor directly and made it clear that this behaviour was inappropriate, but did not report the matter. Although your approach was successful and the supervisor's behaviour changed, there is now an awkward relationship between the two of you, and you would like to transfer to another department. However, in order to request this you would have to give reasons to HR. What do you do?
37. You work in a department where you are supervised by your best friend's partner. He has repeatedly made sexual advances to you over the last few weeks. This has had a negative impact on both your work performance as well as your relationship with your best friend, who is unaware of the situation. What do you do?
38. You have been asked to deal with a matter of sexual harassment in your department. One of the junior members of staff has accused her supervisor of sexual harassment. The supervisor has been accused of this behaviour before, but it seems that in this case the member of staff could have fabricated the story because she was given a poor performance appraisal by her supervisor. Both parties are adamant that their version is the correct one, and your gut feel tells you that the supervisor is innocent. What do you do?
39. You are responsible for HR matters in your company. Last year you made a deal with a big software company in terms of which all employees could buy licenses for their personal computers at home. The company paid all costs. The software company now demands to be given home addresses of employees to do an audit on the number of licenses, but in terms of company policy this information is confidential and may not be disclosed. However, you discover that the

fine print in the contract with the software company clearly states that this information has to be provided. What do you do?

40. You are the head of your department. One of your major customers has approached you with a request for a favour – he wants to arrange a holiday job for his son who will graduate from university this year. He provides you with a CV of his son, which looks impressive, but you already have a very long waiting-list from suitably qualified candidates that applied before a formal deadline, that has already passed. What do you do?
41. You work in the marketing and sales department of a large company. Your daughter recently joined the company as a junior sales representative – she was appointed via the normal processes and all proper disclosures were made with regard to your family relationship. You have to make recommendations in terms of bonuses and promotion, and your daughter has clearly been the star performer in the department – this is backed up by objective sales data. What do you do?
42. You are a woman who has recently joined a large company. Your male manager has gone out of his way to make you feel at home. Although you appreciated the attention at first it has made you increasingly uncomfortable, even though he has not made any advances towards you. He has suggested that you should join him for drinks after work where he would like to discuss work-related matters. What do you do?
43. You are attending a conference in a large city, and have just received your express checkout bill at the hotel. You have been charged for one night less than the actual number of nights you have stayed. You will pay with the company credit card, so there is no personal financial benefit to be gained, but you can save the company a substantial amount of money. What do you do?
44. You have to travel by car to the airport to go on a business trip, and are entitled to claim a certain amount as part of your expenses, based on the distance travelled. However, on the morning of your flight you are offered a lift by a friend who also has to go to the airport. What do you do?
45. You have been approached by a friend who works for a large listed company. He has indicated that he has information about an upcoming merger, but he cannot act on the information himself because of insider trading laws. He has suggested that he could give you the information and that you would be able to make a substantial amount of money – in exchange he wants you to invest a small amount of money on his behalf. What do you do?
46. You are a manager responsible for quality control. You have noticed that the quality of your product has deteriorated over time because of budget cuts. With less staff overall and fewer qualified technicians your customer service has suffered and because of production shortcuts your products do not adhere to your internal safety standards anymore. However, your products are still safer than the cheap imports from your competitors. What do you do?

47. You have read in your company's annual report that it has given substantial amounts of money to the ruling political party, a party that you do not support personally. What do you do?
48. You hold a key position in your company and are responsible for a mega-contract that will run for the next six months. However, you are very unhappy in the company with regard to working conditions and remuneration. You have been offered an attractive position with a major competitor. If you decide to take up the position, you will cause substantial disruption and your current employer will incur financial losses, because it will be impossible for your company to replace you over the short term. What do you do?
49. You need to send a very important e-mail to your supervisor. You are currently working from a small town where your company does not have an office, and your computer has developed technical problems. There is an IT company that can assist you but you need to provide them with your username and password to allow them to work on the problem. This is not allowed in terms of your company's IT policy. What do you do?
50. You recently discovered that one of your colleagues is involved in deceptive sales practices. You know that he is doing this to meet the rather steep targets he has received to qualify for a bonus, and you also know that he is struggling financially with a wife and two young children at school. What do you do?
51. You recently went on holiday and – once back in the office – e-mailed a selection of photographs to friends and colleagues. Two days later you received a message from your IT department with a warning that you transgressed the company's IT policies. Clearly the IT staff opened the attachments to come to this conclusion and you feel that your privacy has been invaded. You do not know whether there is a policy that allows the IT department to monitor employees in this way. What do you do?
52. You work in the compliance department. You recently became aware of certain unlawful practices in your company. You are convinced that you can fix the problem quickly and that it is unlikely that anybody will find out about these problems, but legally you are obliged to report the matter to the authorities. What do you do?
53. You work in the finance department. You have noticed a discrepancy with one of your vendors, where the value of monthly invoices you send out is 10 per cent higher than the agreed contract amount. When you discuss this with the head of procurement he is very abrupt with you – he indicates that there is an informal arrangement with the vendor to charge more and that you should not complain since the company is getting a better price for the product. What do you do?

54. You work in the marketing department of a large company, where you are mostly involved in copywriting of text for advertisements and the company website. You have been approached from time to time by small and medium-sized enterprises with a request to assist them with the development of marketing material. You can do this work over weekends and can charge a fee that is affordable to them, and this also provides a very useful second-stream income to you. What do you do?
55. You work in the procurement department. Your company has recently awarded a substantial multi-year contract to a new supplier. You have received an invitation from this supplier to attend a function for customers that will take place in a luxurious five-star hotel. Business class tickets and accommodation for you and your partner will be paid by the supplier. Since the contract has already been awarded you cannot influence the process anymore. What do you do?
56. You are the sales manager of a company involved in export. You have negotiated a price with the buyer of a client and are about to start delivery and invoicing. You receive a call from the client's buyer requesting you to inflate all your invoices by 15 per cent. When you ask for a reason, he tells you it is not important to know the details, and he can guarantee you that they will continue to buy at this price. What do you do?
57. You have worked on the financial projections for a very big tender. Two days after the closing date you discover a major flaw in your calculations. It is too late to change the tender documents. Because the mistake was based on an overestimate, your price is likely to be too high. It is therefore likely that you will not receive the tender and nobody will ever know that you made a mistake. What do you do?
58. You are the manager of a local operation of a big multinational company in a developing country notorious for gross violations of human rights. There is industrial action against your company and the head of security has called in the army to protect one of your factories. He phones you to ask permission to authorise the army to use live ammunition on the protesters, if required. You know this is likely to lead to loss of life, but you are also concerned about the security of your own staff. What do you do?
59. You are a manager working for a medical aid fund. A patient with a terminal illness has requested authorisation to obtain advanced treatment that will extend her life expectancy by a maximum of six months. This treatment is very expensive and – if authorised – will come from a discretionary fund that could be used for many other purposes, for example to subsidise the provision of anti-retroviral drugs to thousands of members. What do you do?
60. You are the director responsible for IT governance. Your company has invested a huge amount of money in a new IT system which has turned out to be a complete disaster. You trusted the IT

manager when he made a presentation to you the previous year, but it now transpires that no proper needs assessment was done and that a much cheaper system would have been far more effective. You do not suspect foul play. It seems to have been the inexperience of the IT manager that caused the situation to arise. What do you do?

61. Your wife runs a small catering company from home. Your company often has to use a caterer for small groups at the office, and you believe that your wife can offer a superior product at a very reasonable price. You have already used her a few times with great success. One of her other employees delivers the food. Because you have a concern that some people might be unhappy about this practice, you have preferred not to mention to your colleagues that it is your wife's company doing the catering. Everybody is happy with the food and the company is saving money. What do you do?
62. You are the financial manager of a local subsidiary of a multinational mining company, operating in a country that is very close to being described as a ‘failed state’. There is no effective government, a complete absence of rule of law and the local currency is virtually useless. Banks offer an exorbitant exchange rate and inflation is spiralling. Some expenses have to be paid in local currency and the general practice seems to be to exchange money on the black market. The authorities intervene from time to time, but by way of individuals who demand payment to look the other way. What do you do?
63. One of your colleagues is doing a part-time MBA programme. You have noticed that he uses his company computer and printer to do his assignments, and that he often works on his assignments during normal working hours. What do you do?
64. You work for a bank and are often involved in decisions to fund major residential developments. From time to time the developers offer you the opportunity to buy units at reduced rates. You can on-sell the units almost immediately at a handsome profit without taking transfer, so there is no need to apply for financing yourself. What do you do?
65. You are the owner-manager of a large supermarket in a lower middle class suburb. The supermarket is the anchor tenant in a small shopping centre, from where many of the local residents operate their own businesses. You have the opportunity to open a coffee shop inside your supermarket, but know that this will definitely put the existing coffee shop in the centre out of business. What do you do?
66. You work in the procurement department of a large company. One of your suppliers has offered members of staff the opportunity to buy electronic equipment at substantially reduced rates. These are the bulk discount rates that the company offers to its best customers, and its formal policies allow it to offer such discounts to individuals as well. However, when the equipment is

delivered at your house, the delivery person informs you that he has been instructed not to accept any payment from you. What do you do?

67. Your company has a corporate social responsibility programme, but this mostly involves financial support for charities. You feel that a lot more can be done to use the skills of members of staff to make a real difference in your community, but attempts to discuss this at staff meetings are usually met with some resistance. "Yes, we could do that, but we do not have the time" and "Good idea, but that is not a priority at the moment" are some of the responses to your suggestions. What do you do?
68. Your company has recently introduced flexi-time as part of a work-life balance initiative. You see many of your colleagues are now arriving late and leaving early from the office under the pretext that they are working from home, but you suspect that they are abusing this facility. What do you do?
69. You work for the public broadcaster of your country and sometimes have to travel to developing countries to cover live sport events. Without fail, customs officials request facilitation payments to get the equipment through customs, and because you have to cover a scheduled live event there is not really time to make a stand and refuse to pay. What do you do?
70. You work in an environment where many of your colleagues make racist or sexist remarks on a daily basis. What do you do?
71. You work in a large company where you have your lunch in the staff canteen every day. Over the years you have become friendly with the kitchen staff and because you take trouble to know their names, ask about their families, etc., they often offer you preferential treatment, e.g. by giving extra portions or not charging for some items. What do you do?
72. You are invited to be part of a panel of staff members that will assist HR to interview a new candidate for a key position. When you arrive, you realise that the interviewee is an old friend from school, whom you have not seen in twenty years. What do you do?
73. You are a regional manager for a large company and spend a lot of time on the road rushing to meetings. You hate being late and always take extra care to schedule meetings well in advance. Because of unforeseen circumstances you have to cancel a meeting with an important customer, and take the trouble to e-mail and leave a voice message more than a day before the scheduled time. When you phone again to apologise just before the meeting was supposed to take place, the customer swears at you and slams down the phone in your ears. What do you do?
74. You have been asked by your company to suggest a policy on frequent flyer miles. People travelling on company business believe that they deserve to get the miles for personal use, while

others have argued that the miles should be pooled and donated to non-profit organisations. What do you do?

75. You are a manager of a local branch of a bank. On a Monday morning you are alerted by security that one of the cashiers was seen depositing money into the petty cash box. Upon enquiry the cashier tells you that he "borrowed" money from petty cash without authorisation, and he was trying to replace it before someone noticed. What do you do?
76. You have been appointed as a mentor for a senior manager in your organisation. She seems to have a wealth of confidential and personal information about most people in the organisation, and shares this information with you on a regular basis. It makes you feel uncomfortable because it influences the way you look at some of your colleagues. What do you do?
77. You are a hotel manager. One of your employees was caught stealing a video recorder from the store room. The video recorder was obsolete in any case and would have been discarded as part of a recycling programme the following week. What do you do?
78. You are the divisional manager of a large organisation. An employee that reports to you has had to take care of her son who was involved in a serious car accident. She has already exhausted all her annual and compassionate leave, her work performance has suffered as a result of the stress of looking after her son, and you know that she is struggling to pay the medical bills. What do you do?
79. You are the foreman on a production plant in a company where the trade union has embarked on an illegal (unprotected) strike. One of the shop stewards has been very active in the strike but is also quite close to you and has been supportive of you as a foreman. Because there are day and night shifts at the plant, he joins the strike during the day, but then works during the night shift without the knowledge of the trade union. You are required to report all striking workers to management. What do you do?
80. You are the male procurement manager of a large organisation, and attend the year-end function of one of your largest suppliers with one of your junior female buyers. Halfway through the evening the host calls you aside and asks you not to leave early, since there is a special strip show that has been arranged to take place after the formal proceedings. What do you do?
81. You are the head of procurement. A supplier has offered you an all-expenses-paid opportunity to attend an important international industry conference. One of your biggest competitors has accepted a similar invitation from the same company, and the reason that has been provided for the offer is that the supplier wants its clients to keep up to date with the latest industry developments. What do you do?

82. You are a junior member of staff. One of your colleagues is studying towards an MBA and when leaving the office you notice that she has a box of printing paper with her. She explains that she uses it to print her assignments, and although she could print at the office, she prefers to do it at home since she then uses her own time and printer and not the company resources. What do you do?
83. You are the supervisor of a sales division. You have already achieved your target for the month, and have additional orders that you can process before the end of the month. However, the clients are in no rush to receive their goods, and if you stall for a week you will have a good start towards achieving next month's target. What do you do?
84. You are a junior member of staff in the procurement department. You have received an invitation from one of your major suppliers who is currently tendering for business with your company. It is a ticket to attend a very important sports event in your city – no travel or accommodation is included, and you do not have any influence over the tender decision. What do you do?
85. You are the manager of a local operation of a large company. You have noticed that there are a few suppliers who regularly receive contracts – these are contracts that are too small to go out on tender and can be awarded based on the discretion of the head of procurement. Today you have received an anonymous note on your desk that refers to this practice and mentions that one of the major beneficiaries is a brother of the head of procurement. What do you do?
86. You are a senior manager who reports to the operations head in your company. The operations head reports directly to the CEO, but often the CEO prefers to contact you to clarify matters or get more detail. It makes you proud to experience the trust that the CEO has in you, but it infuriates your boss. What do you do?
87. You are the CEO of a service company that operates in a major city. You have been approached by one of your competitors who wants to discuss cooperation. Because you often share clients, the competitor suggests that you could standardise certain administrative functions if you share client information and some costs. This would ultimately benefit the clients according to your competitor. What do you do?
88. One of your old school friends is a well-connected political figure and has a very powerful business network. He has often suggested that he could introduce you to important decision makers in your industry. You do not suspect there will be any strings attached – he has not mentioned that there would be any conditions to making the introductions. What do you do?
89. You have to make a decision about the appointment of a particular supplier. This supplier operates in many countries around the world, including three that have been included in a United Nations list of "countries of concern" because of systematic human rights abuses. Your own

company policies prevent you from operating in these countries, but not to do business with other companies who operate there. You are concerned that the media might target your company if it becomes known that you are dealing with this supplier. However, this supplier can provide an excellent product at a price that is significantly lower than any of its competitors. What do you do?

90. You are a junior member of staff. While on holiday you visit a restaurant and spot your sales manager sitting at a table with the sales manager of your biggest competitor. They seem to be having a good time, but are clearly talking about work with documents and calculators spread out over the table. You find this very strange because at the office the competitor is usually presented as "the enemy" that should be opposed in every possible way. What do you do?
91. While surfing the Internet at home you discover a website of an overseas company that operates in the same industry as your employer. It is a small company and not a direct competitor, but you are amazed to see that the content of some of the pages is an exact replica of your own marketing material. What do you do?
92. You have appointed a company as a supplier based on its Black Economic Empowerment credentials. The company has received excellent ratings in terms of transformation, but you are amazed to see that all the people that you deal with are white, from administration and sales right through to senior management. What do you do?
93. You are an engineer working for a large mining company. Your company has developed an innovative technology that allows you to mine more smartly and extend the operational life of any mine by a significant amount of time. Although you were not involved in the development of the technology, you understand it very well. You have received – out of the blue – a very attractive offer of employment from one of your biggest competitors. What do you do?
94. You are sitting in a restaurant over a weekend, waiting to have dinner with your partner. You become aware of a conversation at the table behind you, where two executives of your biggest competitor are discussing details of a new product that they are planning to launch soon. Should this happen, your company will be on the back foot and will lose substantial ground to the competitor. What do you do?
95. You are a product developer for a large company. There is new environmentally friendly technology available that would have a dramatic impact on your carbon footprint, but the investment costs would result in substantial price increases. You are not convinced that customers would be prepared to pay a premium for a greener product. What do you do?
96. Your company is involved in the construction of affordable housing and usually do business directly with government departments. Because of the target market of the houses, the pressure

is always on cost. You can install environmentally friendly technology in low-cost housing, but the government would have to increase its subsidies, which it is not prepared to do. What do you do?

97. You have the opportunity to open a manufacturing plant in a country where there have been gross violations of human rights in the past. You are sure that the government officials will also solicit bribes from your staff once you are in business in that country, but you can also create more than a thousand jobs in a country where poverty and unemployment are rife. What do you do?
98. Your company owns a well-known supermarket chain. There is a very popular new medical product on the market which is available without prescription. You have been informed that the company which developed this product engaged in animal testing which did not meet even the most basic standards. However, there is big demand for the product and all your competitors stock it. What do you do?
99. You are the financial manager of your company. You have been advised of a loophole in tax law that can save your company a substantial amount of money. This is a highly technical issue and the loophole will probably be closed by new regulations soon, but in the meantime you can save money in a perfectly legal way. What do you do?
100. Your company policies do not make provision for monitoring of employees' internet usage. Your IT manager has just presented you with evidence that one of your senior managers has been accessing child pornography from his company laptop. The sites were not accessed from the office and not during working hours. What do you do?

Appendix G: Personal interview with Georg Kell

Interview with Georg Kell (GK), executive director of the UN Global Compact, conducted by Daniel Malan (DM), director of the Centre for Corporate Governance in Africa at the University of Stellenbosch Business School

New York, 5 August 2013

DM: Signatories to the UN Global Compact have to deal with a whole range of tensions, for example between global and local perspectives, or between the business and moral case for corporate social responsibility. Thank you for making time in your busy schedule to share your views. Firstly, do you believe that the majority of Global Compact signatories manage to apply the universal principles in such a way that they are locally relevant?

GK: This is the never-ending struggle between global and local, local and global. First, all action of course is local, all change is local. Ninety per cent of all business-led partnerships within society, academia and governments are locally conceived and designed. We have some good statistics on this from our implementation survey. I am totally convinced as well that the emphasis must be on local ownership, and locally driven and locally led approaches. You do not know globally what the priorities really are in a particular context and the solutions need to be identified locally. I go as far as telling my colleagues here in New York: Remember you know nothing about the specific context. You have to support the good efforts that are going on locally, and that is why we went local from the beginning through our local networks, of which there are now 101 worldwide, and we see our future in supporting the local networks even more. But having said all of this – which is all true – at the same time one needs to recognise that global integration is a reality today. Corporations, not just since IBM, made the management concept a slogan. Global integration is a business reality. The latest world investment report from the UN documents how global integration is going into a hyper-phase, so to speak. It is genuinely true that the world has never before been so connected with trade and investment as it is today. So we should also keep in mind very much the importance of global integration, and here the notion from a UN perspective is very strong. What we do offer globally are values and principles based on historical experiences. The principles of the Compact are derived from decades of deliberations and trying to identify agreement and consensus on what it means to respect human rights and a decent workplace and environmental stewardship. So, first you think globally – or the common understanding, or the prospect, or the possibility of where the journey should go to if you should want the vision of a globally integrated planet marketplace – but all action and priorities and the 'how' need to be identified locally. That is probably a good division. And global aspirations and local aspirations always fit in one way or the other. As I said, I was recently in China where our Caring for Climate platform now is a national priority for getting industry involved to implement the government priorities on pollution control and emissions control. And China has no problem aligning their national priorities with the global aspirations, so to speak. And the argument is often made about their human rights, for example: Asian values versus universal values. I am very strong on this argument that we cannot compromise on the universality of some notions of what is right and wrong. If you were to negate the universality of right and wrong on some of the fundamentals, then you would basically say that humanity has not learned anything and this would be very, very sad. Yes, the articulation and the priorities and the context is local, but the shared understanding on what is right and wrong should be aimed at what has to be global as well.

DM: In my own research I have recently re-looked at the work of Milton Friedman. Beyond his famous statement that the social responsibility of a business is to increase its profits, he did suggest many activities that today would be regarded as part and parcel of strategic CSR. This is also reflected in the more recent work of Porter on shared value, although some scholars have questioned the way in which he introduced his own thoughts without acknowledging the similarities with stakeholder theory and substantial work about the business case for CSR. Today, there remains a tension within the often-used concept of 'enlightened self-interest'. Usually companies say they practise CSR because it is good for business and because it is the right thing to do. But that does not make provision for the times when doing the right thing is not good for business in the more traditional sense, and I am curious to know how you understand that tension.

GK: Like the global/local contrast, it is one of the intrinsic dualities of this agenda, and the two yins and yangs of corporate responsibility and sustainability will never really be in a perfect balance. I think the movement ten years ago was driven more by moral rights and wrongs when the supply chain issue broke into the open, the sweat shop campaigns and the likes. The moral issue today is as important as it was then. Look at inequality worldwide. And the fundamental truth that power and responsibility cannot be separated is today as true as it was ten years ago. As commercialisation has progressed even more, you could argue that corporate influence has not shrunk; it has grown. Therefore you know the moral argument today is as strong, if not stronger than it was ten years ago. At the same time, what has changed over the past decade is that the material argument in favour of engagement has gotten stronger because of empowerment of people through information technology: transparency has been on the rise. The stakeholder notion has become basically mainstreamed now, while ten years ago it was still contested and disputed. Today stakeholder engagement is seen as a precondition. Also the boundaries between public and private goods continue to be blurred, despite John Ruggie' s great contribution to human rights. They are still being blurred in other domains because of the fundamental re-shift of commerce gaining more influence and business going global, while government remains local. So the material aspects have gained relevance, and I think it is a great thing that materiality is becoming a business driver of the movement. It is not a contradiction to the moral obligation. It reinforces, if anything. We sometimes use the phrase "from morality to materiality" to describe the historical evolution of this agenda, but I think it would be wrong to imply that morality no longer counts. If anything, it counts even more today. So I think what is new is that the material aspect has been added and the business proposition has become stronger. As regards the shared value notion, I am personally very delighted that Porter came out with this work because it had an impact on the US where the silly ideological debate between shareholder and stakeholder dominated the public domain. And the shared value notion helped to overcome this and put it in the right direction. Historically, I would argue we have advocated the very same philosophy since Kofi Annan delivered his speech in 1999, because he always talked about the overlapping interest of public and private interest in a global, integrated world. And if it takes a Harvard professor to mainstream the concept – great! But it is certainly not new. But it is most welcome.

DM: I would like to move on to the question about reporting versus performance. Look at the signatories of the Global Compact: the only way in which most other stakeholders can assess the performance of signatory companies is to read their communications on progress. At the moment there is a perceived competition between the GRI and the International Integrated Reporting Council, and more recently also the Sustainability Accounting Standards Board. What are your views on the potential convergence between reporting standards and would you agree that some companies spend too much time focusing on reporting rather than on the underlying performance?

GK: It depends very much where companies start their journey and it depends on their context. If you talk about the global 500 Companies, the perspective is very different from those of medium-sized companies in Pakistan or China or Indonesia. I can make the following generalisations. Firstly, I remain of the view that disclosure should flow from the right attitude of the leadership in the company, and not be added on – without the leadership's support – for good performance. Whenever you have a mismatch, such as too much emphasis on reporting and the lack of strategic support for the issues, reporting may not really be the driver that it can otherwise be. Disclosure, rightly, is becoming more important because it is also an integrity measure to demonstrate that companies genuinely want to aspire to the moral, or the material, proposition of this agenda. And for all these reasons it is right that reporting is attracting so much attention, and I do share GRI's views that if done in the right way then reporting actually is becoming a driver for good performance. But it is obviously not a substitute and it needs to fit into this flow of leadership commitment, corporate culture geared in the right direction, and then reporting being one component of it. Sustainability reporting remains the only tool you really have at this point. Integrated reporting is the music of the future. Agreement on what is material for which industry sector is where we all want to arrive at over time, but this journey will still take quite some time and the future is very uncertain in this regard. So I think it is very important that we continue to emphasise the importance of sustainability reporting – GRI in particular – while at the same time supporting efforts to move towards integrated reporting. However, I would also add here – and I fully concur with Ernst Lichteringen's views on this – that integrated reporting must retain its broader social and environmental call and not just remain a tool of accountants to measure narrow materiality in a shareholder sense. If that were the case in the future, then I think we would really miss a historical opportunity because this whole movement started off because of the mismatch between commercial and societal situations. I therefore think integrated reporting will need to be strongly anchored in the broader, societal and environmental priorities. So, it is a complicated field. Two caveats need to be added in many countries around the world. The enabling environment for reporting is grossly underdeveloped, in other words it is very hard to win over companies to disclose ESG issues because there is no market for them. Press and media are underdeveloped. There is no stakeholder critical review, and no performance measurement. Through the supply chain and value chain there are great entry points and, yes, it is on the move. I think convergence over time will evolve and not least because the investor community is ultimately the one which will make market judgement calls on these issues, and this is where I am quite optimistic. The UN PRI has over 30 trillion US dollars behind it, with over 1 000 signatories, and, while investors are still lagging behind the business world by anything between three to five years, they are closing the gap. And the idea that environmental, social and governance issues are relevant for long-term returns is increasingly being accepted and this has been quite amazing, especially over the past two years. I guess the financial crisis has helped to accelerate that movement – how investors are closing that gap. And that is where I have the biggest hope – from the market side. But ultimately I think at country level you also need a regulatory approach. There is no doubt and there is no escaping it. Take China, for example, where I just spent a week. Ultimately you need industry standards that speak to these issues. Yes, voluntary approaches can help to prepare the ground and they can accelerate the change, but ultimately you also need a codification of best practices, at least, in the very material sense. When it comes to SO_2 emissions or things like this, you cannot just do it with goodwill, because you will always have free riders who find it cheaper to dump the stuff in the air or the water. This is just one example to make the case for regulatory changes in one area. So it is an interplay, a very dynamic interplay and the future is very hard to predict. If the world stays open and that is a big 'if'; if the political environment remains supportive of global integration by and large; if strategic rivalry between major powers does not derail a rule-based approach to market integration, then we have a fair chance to see integrated reporting emerging sooner rather than later, because the materiality of some of the issues is becoming so apparent that, in the assessment of investors, it is increasingly requested – and that is a great trend. At the same time, we need to uphold the broader societal aspirations that come with it. So it does not just become a tool for accounting.

DM: If you look at the Compact principles, many of those have already been backed up by treaties or legislation in many countries, for example in South Africa our Companies Act now makes it compulsory for listed companies to have social and ethics committees and it mentions the Global Compact by name. The social and ethics committees must monitor the company's performance according to the ten principles. And then there is also the Danish example where companies need to report on CSR. To what extent do you think we will see CSR or corporate citizenship become regulated in the future?

GK: I think it will evolve in such a way that it will retain its dual character. By definition, CSR embodies a voluntary notion, but some aspects of CSR will lead to codification and regulation at national levels. The benefits and the needs of CSR are broadly recognised. And so I think the question has to be reframed: *Which* aspects of CSR may lead to *what* kind of regulatory changes in *which* parts of the world? That is really the trajectory as I see it. The Global Compact will always retain its voluntary nature, by definition – this is how we are set up. And there is a strong case to be made for more of it, because, if you look around the world, South Africa is almost an exception. So is Denmark. And I applaud that. It is really wonderful. But in many parts of the world the fundamental problems have to do with governments' governance deficiencies. Remember, we have violent conflicts, high violence, and 1,5 billion people around the world suffer from not having freedom of fear. According to the World Bank and according to Transparency International, corruption is systemic in more than seventy countries. Imagine that! And in many other countries we have a basic struggle of how the market will respond to state-driven approaches. So we have fundamental challenges around the world, which go to the core of what markets are and how markets are constructed, that are not yet solved. And I would argue there is a huge need for voluntary concepts for years to come in that regard. Now, voluntary approaches in that sense have two fundamental roles. One is to fill the void for situations I've just described. Because in such situations investors can choose either to muddle through or to go with the flow. In conflict-affected areas, for example, or at least within their own operations, investors try to uphold universal principles and not grossly violate them. So this is the first function of voluntary initiatives: to fill gaps and hopefully to inspire positive change; and the second one of course is: to be on the front-end of change and to promote for more beneficial contributions, say, on the climate side or on women empowerment – you know, where national regulation is not codified accordingly but the social and the business case for moving in that direction is becoming very strong and there is a moral case as well. So it is a dual concept. And which parts will lead to regulation is difficult to predict and it depends really on the country and on the need. I would hope that in some countries extreme pollution becomes regulated much more effectively. I would also hope that in some countries gross abuse in the corruption domain and public procurement will become better regulated. Public procurement, after all, should be public, and so forth. And there are many other abuses where I hope a difference will be made. Global regulation – forget about it. The UN has neither a mandate, nor the resources. That is for sure. Besides, I am always jokingly saying if you look at the book of UN conventions and regulations, it is more than 2 000 pages, and the issue is not that there is a lack of international agreements on how the world should look. If anything, we have too much of it. We have already forgotten what the world has agreed to ten years ago, not to mention 20 years ago – the unfulfilled promises. The issue really is about how to make change happen in the real context. So it is about the 'how' – and that is where the differentiation of the CSR agenda has to be recognised – and we have to recognise that every country has its own history, its own past, and it needs to find its way forward. What CSR offers is the vision of a shared direction of where we all want to move to. If we all want to move to a global integrated market where basic principles are respected by everybody, irrespective of the size of the company or its origin, then I think an important contribution has been made. And if that then leads, in some countries and markets, to regulatory changes where the need is greatest – wonderful. It is necessary in many instances. But to prescribe top down or one size fits all – that is illusionary. That is my take on this. But this dialectic on the voluntary and regulatory will never conclude, and I am not an academic, but I am sure there are plenty of studies which can prove that voluntary initiatives have been a forerunner for preparing the ground for regulation in some instances and, in other instances, voluntary approaches have proven to be just so much more effective than regulations – because regulatory approaches have high costs and often they are not effective because there are many question marks. So it is a complex area and one that will never quite play out in a simple way.

DM: One of the trends in regulation is to move towards 'comply or explain' – which is almost a hybrid between the mandatory and the voluntary. I would now like to move to the issue of quantity versus quality. I know you often speak about taking the Compact to scale by increasing the numbers, and the obvious risk associated with that is that companies will pay lip-service only. If you want to respond specifically to some of the criticisms of Sethi in terms of the effectiveness of the Compact, that is up to you. But my question really is to ask your view on that potential risk of taking the initiative to scale and losing quality in the process.

GK: It is very legitimate and it is a real issue, and we have a double challenge here in terms of systems dynamics. What you need to realise is if the initiative grows beyond a certain number, which in the case of the Compact was done years ago, you need to focus on the front end to maintain quality, because only quality ultimately can drive quantity; but you also do not want to create a club model. Our mission is to change markets from within and we want to inspire as many as possible, and you can only lead to large-scale change if you win over a critical mass. Striking the balance between quality and quantity is a never-ending challenge. We have tried to do this globally by introducing a leadership platform. Global Compact LEAD is doing very avant-garde work on integrated reporting, disclosure, executive board training and so forth, to ensure that the quality aspect continues to move ahead. We are also working closely with GRI and others on the communication on progress concept. We have introduced a differentiation model, so one is for learners and regular participants and one is for advanced participants; and we have offered a Blueprint for Sustainability Leadership which is – intentionally – so ambitious that nobody can actually meet it. The whole purpose was really to introduce differentiation, because to manage large numbers you need to focus on two aspects: leadership to drive quality and the tail-end as a UN-backed initiative. We are doomed if we simply want to go to scale. On the other hand we could just become yet another club, of which there are already so many, and if you want to change the world on a larger scale, you cannot do it through a club. A club is there to praise each other and to get differentiation out of it. And I do not want to be nasty here, but I could name a number of clubs which thrive on differentiation and on recognition, and not for aiming to change the larger environment. So yes, you are right, but our last board meeting also concluded firmly that quality must drive quantity, but unless we have a strategy for going to scale, we can never achieve our ambition. So we need to balance both. I also predict that over time our country networks will introduce differentiation, because once you have more than 500 participants you need to make sure that the frontrunners stay engaged and motivated, so you need to offer the more challenging engagement, but you also want to make sure that small and medium-sized companies which want to make a difference have an opportunity to jump on. So in that regard I would argue that the Compact is like an escalator. Where the direction of change is clearly set, you have people or organisations that are at the top of the escalator, which keeps on moving, never standing still. But you want to make sure that everybody can jump on the escalator. So you do not want to have barriers for entry there. And on Sethi I just wish – I hoped he would have read anything we have done in the last five or six years. I haven't spoken to him in six years and he has never bothered to look into our work, so he is repeating what he said six years ago, and I do not understand why he has not bothered to even look into the last six or even seven years.

DM: The final question is from a governance point of view. We do a lot of work on the role of the board as opposed to the role of the chief executive officer. What is your view on getting the balance right between the executives who have to sign off on the Compact and the board as the strategic driver behind them?

GK: It is a question of ownership, I presume. In publicly listed companies with a board of directors, it is very important that the board also is fully committed and plays a proactive role in this, and there is a universal recognition now, and it is not just coming from us, that in the case of publicly listed companies directors of boards are not yet sufficiently aware of these issues and there is much work that has to be done in this area. We now make it a requirement in publicly listed companies that the board – when it signs on – has a discussion on the Global Compact before they join. And the board signs off along with the CEO, because we have seen in the past cases where CEOs sign off with good intentions for the moment, but a year later they are being changed for whatever reason and then this kind of commitment is no longer honoured. To really have proper organisational embeddedness in publicly listed companies, boards have to play a much more important role and the issues have to be embedded into the structure. In the last 3 or 4 weeks, I see – all of a sudden – a huge focus on board level engagement, and our own programme is now, I think, ready to start soon and a few major corporations have already agreed to participate, which is very important and obviously it is critical to get this into board rooms in a proper way.

Appendix H: A New Social Covenant

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The world is facing a series of difficult challenges and adjustments: We face a broken social contract and declining social trust in developed economies. There are very difficult choices that come with austerity and retrenchment. We see serious resource mal-distribution and constraints, and experience growing conflicts. The need for equitable growth in developing nations is clear, and the need for a moral agenda to overcome extreme poverty.

The choices made about each issue are determined by the values we hold – the values applied by government, business, civil society and individuals. Those choices need to be self-conscious – not based merely upon the inertia of accumulated interests. This is not merely a philosophic enterprise; it is an urgent matter that requires moral courage. The stakes are high.

So this is our call: for a period of intentional, global reflection on the values we bring to the largest decisions of our time. A method to foster that reflection is the development of a New Social Covenant.

Many previous efforts have focused on individual rights – which are essential. But our focus is on what we owe to one another – both within nations and among nations. If the goal is the restoration of broken trust, it requires the restoration of mutual responsibility.

There is great cultural diversity when it comes to values. But there is also a broad consensus – across cultures, religions and philosophies – on some shared, human aspirations.

- The dignity of the human person – whatever their race, gender, background or belief.
- The importance of a common good that transcends individual interests.
- The need for stewardship – a concern, not just for ourselves, but for posterity.

Together these offer a powerful, unifying ideal: Valued individuals, committed to one another, and respectful of future generations.

Fostering these values is both a personal and a collective challenge. It is necessary to bring values into public life – to bridge the gap between aspiration and practice. Discussion is not enough; we must make different decisions. And this depends on transformational, values-based leadership in every field of human endeavour. We need to cultivate, encourage and honour the models, at the World Economic

Forum and beyond. We must engage the people who can respond to global challenges in effective, productive, healing ways – people who will build and leave behind a more just, generous, and sustainable world.

The Broken Social Contract

The collapse of financial systems, resulting in unanticipated economic crises, has generated a growing disillusionment in and a fundamental distrust of the ways things operate and how decisions are made. Old social contracts have unravelled. Former assumptions and shared notions about fairness, agreements, reciprocity, mutual benefits, social values, and expected futures have all but disappeared.

The historic social contract between business, government and society seems to be broken, and the legitimacy of corporations has reached a new low point, with business running the risk of losing its license to operate. We see a growing public indignation at the perceived disconnect between perks for a few and the rights of many. Citizens are demanding more collaborative, sustainable and inclusive methods of value(s) co-creation.

It is clear that effective leadership must incorporate a values dimension. However, while many leaders espouse principles including transparency, integrity, and the common good, actual practice often lags far behind. Due to growing interdependencies and interconnectivity, this gap between values and behaviour is increasingly open to public scrutiny and subject to systemic effects. It appears that even well-articulated and generally supported principles are difficult to translate into day-to-day decision-making and into the behaviours observed by suppliers, dealers, customers, and employees, sometimes with diverse and conflicting value systems.

In the democracies of Western Europe and North America and in other advanced industrial democracies elsewhere in the world, there was, for some 35 to 45 years after the Second World War, to a lesser or greater extent, a clear social contract between citizens and their governments. In some countries, this was implicit and in others explicit. In addition to democratic and transparent elections, a functioning justice system and security against internal and external threats, the State promised citizens access to universal education, a degree of support in old age and the provision of varying degrees of safety nets against ill health, unemployment and other unpredictable life events. The extent to which citizens were covered by the contract was marked by cleavages along racial, ethnic and other lines, of course, but even for marginalized groups the ideal of a social contract provided a powerful moral framework for them to assert their rights.

Perhaps most importantly, many states had as a clear goal the achievement of full employment and citizens had the expectation that if they worked hard, they would get a just and fair reward for their labour. They could expect to enjoy economic security and even attain a higher standard of living than their parents, and in turn better prospects for their children than for themselves. Moreover, this promise was widely enjoyed: income inequality declined substantially in many countries during this period. They also had a clear expectation that the state would help protect the value of their savings and assets. This was the era of 'as safe as houses'. Of course, many Governments failed at times to deliver on some of these goals, but there was reasonable consensus that these were the appropriate goals.

Over the last 20 to 30 years, we have witnessed a massive breakdown in trust between citizens and their governments. This is true whether we look at populist movements in the U.S., various protest movements across Europe and Arab countries, and throughout the world. We have economies that are widely seen as unsustainable, unfair, unstable and deeply unfulfilling. In addition, inter-class mobility is now blocked, even in countries like the U.S., which has always held out hope to the dispossessed that they could lift themselves out of poverty through hard work. These are systemic and interlinked problems which require a 'Great Transformation' to overcome.

Most pernicious are instability and unfairness. The economies of the advanced industrial countries have in general been constructed with a view to short-term efficiency rather than resilience. Indeed, longstanding institutions and practices that were intended to secure stability have been attacked explicitly on grounds that they undermine efficiency – institutions like labour unions that had provided working families with representation in economic and political affairs. These institutions were faulted for having brought politics into economics – and as a consequence, for distorting economic flows and outcomes. But politics abhors a vacuum, and in the political space vacated by weakened labour organizations, economic elites now exert extraordinary influence over economic affairs.

Economies, like ecosystems, need a balance between resilience and efficiency. Insufficient safety nets, firewalls and rescue mechanisms have been designed into our national and international systems. As a result, we have suffered major shocks across worldwide systems with increasing frequency. A sub-prime housing crisis in the USA triggered a banking crisis which, partly as a result of necessary bailouts, in turn resulted in a sovereign debt crisis. This in turn, as a result of flaws in the original design of the Euro has since triggered a Euro Crisis. People who have lost their jobs, houses, and savings through no fault of their own feel a massive loss of trust and sense of unfairness. Many others are fearful and have no faith that their children's futures will be better than their own. And yet, in our new political context, these victims of the financial crisis are often blamed for their profligacy.

Inequality

The issue of inequality has more recently commanded public attention, due in great measure to the "Occupy" international movement. Until now, the subject has been the elephant in the room in our discussions about the economy that few wanted to say out loud. This has given voice to the unspoken feelings of countless others that something has gone terribly wrong in our societies. And this message has resonated widely. Indeed, the most recent WEF survey of its participants (2012) indicates that economic inequality is now among the two most frequently cited threats to economic stability.

In the last hundred years, there have been two peak periods of great inequality – just before the Great Depression, and in 2008, right before the Great Recession. Social movements have created the space for a new conversation, a moral discussion, about inequality. The 1% and the 99% is now a metric and template that is widely discussed and is changing the cultural and political framework. What is fair, what is just, what is right are all on the table now. And both economics and politics will have to answer those questions.

At the end of the 19th Century, the ratio of the richest 20% in the world to the poorest 20% was approximately 7:1. At the end of the 20th Century, it was 75:1. Eighty percent of the real increase in wealth in the USA between 1980 and 2005 went to only 1% of the population. Now in the USA, the richest
400 people have as much wealth as the poorest 155 million people. Economic inequality in the UK is the highest in recorded history – it went from having inequality levels similar to the Netherlands in 1979 to being one of the most unequal developed countries in the world. In most advanced countries the ratios of chief executive officer pay to the pay of the average worker in the company has risen astronomically over the last 30 years. And inequality has grown rapidly in many countries around the world, often fuelled by corruption and excessive greed. The stability conversation that is also taking place is about the dangerous and growing conflicts over the resources of food, water, land, and energy – because of both scarcity and mal-distribution.
As Richard Wilkinson and Kate Pickett demonstrate in their book 'The Spirit Level', inequality, even more than poverty, is harmful to everybody in society. Unequal countries have far more social problems (including crime and corruption), lower trust levels and everybody's well-being is depressed compared to more equal countries. In a similar vein, Nobel Laureate Amartya Sen has argued that those who suffer from inequality (even in wealthy societies) face a diminution in their basic economic and political freedoms – such as their ability to achieve political efficacy.

Inequality is also weakening the foundations of economic systems. There is increasing evidence that the financial system meltdown of 2008 was partly caused by a combination of the falling wage share of lower income earners combined with too easily affordable consumer credit, leading to an unsustainable rise in personal debt for these groups. There is also evidence that too much spare cash at the 'top' led to reckless behaviour on behalf of the rich. Furthermore, the continuing failure to exploit available talent means there is less capacity in an economy which impacts innovation, tax-take and aggregate economic prosperity and growth.

Loss of Trust

But underneath all that, a deeper issue of 'trust' is being raised – that leaders have betrayed the public trust, that systems aren't fair, that the rules of the game don't apply to the people at the top, and that most other people are really on their own in this modern economy. Indeed, there was also a lack of empathy from the people at the top regarding the common humanity with the people offered subprime mortgages. Empathy, like trust, can be learned and practiced. A recent report by the Pew Research Centre demonstrated for example that trust in US Federal Government was at one of its lowest levels in half a century. Similarly, the Edelman 2012 trust barometer found the credibility of business CEOs had plummeted recently. The economic and political inequality that we now experience, along with the social immobility now also being revealed, all undermine the public sense of ownership and belonging in society. People have little trust in their governments and institutions; believe they are penalized for the mistakes of others who continue to reap handsome rewards; do not believe they themselves are rewarded fairly for their efforts; and are fearful for their future, their old age and the prospects for their children. They now have little stake in society. Opportunity is a lost hope for many.

At the same time, the public scrutiny and social accountability of companies, institutions, and governments is growing. On blogs, micro-blogs, and social networks on the Internet, organizations and governments are facing a 24/7 public that quickly exposes controversial or unethical behaviour. Empowered by this 'radical transparency,' consumers increasingly expect companies to make a positive social impact their core mission. Citizens around the globe demand new, more transparent, collaborative, and inclusive models of value creation that produce well-being, happiness, and meaning as much as profits.

A Stakeholder Economy

Most of these issues are already being discussed at the World Economic Forum in Davos. 'Short-termism' is regularly critiqued in the broad conversations about values at Forum meetings. It is time to move from a narrowly defined shareholder economy to a stakeholder economy that includes workers, consumers, rights advocates, the environment, and future generations – all in our economic calculations and decision-making.

In particular, the World Economic Forum is uniquely well-placed to foster a debate about how to move from a shareholder model of companies to a multi-stakeholder model. Businesses are key to the issues of job creation and discussion of fair rewards. There is a growing demand for such a shift, particularly amongst the younger generation. For example, a 2012 Deloitte survey of 1,000 staff born after 1981 showed that 92% believed that the success of a business should be measured by more than profit, suggesting that a company's 'societal purpose' is a key priority and expectation of the Millennial generation. There is increasing evidence that such 'purposeful' companies are not only more successful at recruiting and retaining key staff, they also out-perform businesses whose stated purpose is to maximize shareholder value. Most importantly of all, we believe that a move to multi-stakeholder companies is a vital step if humanity is simultaneously going to be able to create enough new 'good' jobs and manage to live within planetary environmental limits.

The most pertinent new principles for corporate design for multi-stakeholder companies are those produced by the Corporation 20/20 initiative of the Tellus Foundation in the USA. They are as follows:

- The purpose of the corporation is to harness private interests to serve the public interest
- Corporations shall accrue fair returns for shareholders, but not at the expense of the legitimate interest of other stakeholders
- Corporations shall operate sustainably, meeting the needs of the present generation without compromising the ability of future generations to meet their needs
- Corporations shall distribute their wealth equitably amongst those who contribute to its creation
- Corporations shall be governed in a manner that is participatory, transparent, ethical and accountable
- Corporations shall not infringe on the right of natural persons to govern themselves, nor infringe on other universal human rights

What needs to be done?

We believe that a New Social Covenant between citizens, businesses, and government urgently needs to be designed. We believe that this should be a Covenant, not a Contract, as values and trust are much more important in a Covenant than in a Contract. A contract is transactional; while a covenant is moral. By definition, this will require the engagement and collaboration of all stake- holders –

governments, business, civil society groups, faith groups, etc. Such Covenants will vary from country to country, and it is not possible to be prescriptive about either content or process. It is expected, though, that certain universal values, such as the dignity of the individual, the primacy of promoting the common good, and the responsibility for stewardship of the planet, will feature in all of them.

However, it is clear to us that new social covenants must take into account the changed nature of the world in which we live. Furthermore, given the importance of business, new social covenants should arguably be between citizens, businesses and governments.

Key elements that are likely to be present include:

- Agreement on basic, universal ethical values
- Agreement on the need for these values needs to be reflected in the legislation adopted and regulations promulgated by individual countries, and in the international economic agreements that define countries' duties to each other
- Education systems which are open to all and which foster equality of opportunity
- A goal of providing enough 'good' jobs. This requires a much greater focus on 'good' jobs for non-graduates; strong technical education opportunities; apprentice schemes; a pro-active tax and incentive system and 21st century industrial strategy
- Fair rewards for hard work and contributions to society
- Adequate security for savings and assets
- A commitment to reduce inequality and to keep income and rewards within 'fair' bands at the top and bottom of the scale
- Stewardship of the environment and a commitment to preserve natural capital for the benefit of future generations – even 'the seventh generation' out as indigenous people use this as a moral metric.
- Financial sectors that are widely perceived to be stable, socially useful, and accountable
- Strengthening the reality of both opportunity and social mobility
- The promotion of human well-being, happiness, flourishing and equality of freedom to live a valued life as key societal goals
- Adapting new measurement systems to measure progress at both national and company levels
- As we move more deeply into a digital and virtual world, infused with complex technologies, personal privacy and public transparency will become crucial to the trust we need
- Moving from a shareholder model of companies and a client model of other vital institutions (like schools and universities) to a stakeholder model
- Engaging the next generation in designing new models and practices

How might a New Social Covenant come into being?

We have set out, above, some ideas and design principles for a new social covenant(s). These are designed to start a dialogue rather than to be definitive. The crucial issue, though, is that a discussion is started. A new covenant cannot come from a document but, rather, will be the product of a conversation between citizens, businesses and governments. Such a dialogue will need to address aims, discuss barriers, and above all, build trust. The World Economic Forum – as the key convener of representatives of all three stakeholder groups – is ideally placed to host and catalyse such a dialogue. We propose that this dialogue commences at Davos 2013.

A conversation about a social covenant could ask what a 'just economy' should look like and who it should be for – how we could do things differently, more responsibly, more equitably, and yes, more democratically. In forums where business and political leaders meet, the conversation could discuss the meaning of a 'moral economy' as a way to safely interrogate our present failed practices – and driving both ethical and practical decisions about the economics of our local and global households.

Social covenants could be entered into on the basis of trust, but this trust must be monitored, incentivized, and rewarded. Reforms must yield new institutional arrangements that secure meaningful representation for the 99%. How might new social covenants rebuild our trust in political and business leadership?

Lack of trust is bad for politics, bad for business, and bad for overall public morale. It undermines people's sense of participation in the society, undermines feelings of social responsibility and makes people feel isolated and alone – worried more about survival than solidarity.

While the "contract" was broken, a sense of "covenant" is now more needed – fused with the sense of moral values and commitments. The process of formulating new social covenants could be an important part of finding solutions.

Global Agenda Council on Values (2012–2014)

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- Joel H. Rosenthal, President, Carnegie Council for Ethics in International Affairs
- Dina Shoman, Member of the Board, Jordan River Foundation (JRF), Jordan, Young Global Leader
- Stewart Wallis, Executive Director, New Economics Foundation

Appendix I: The Environmental Social and Governance Rating Matrix

The Environmental, Social and Governance Rating Matrix (the matrix) is a developmental tool, aimed at assisting companies to improve their corporate governance performance and reporting, and to influence investment decisions made by the South African Public Investment Corporation (PIC). The PIC is a government-owned asset manager and its biggest client is the Government Employees Pension Fund. The PIC manages assets of over R1,17 trillion making it one of the largest asset managers on the African continent.

The matrix was developed jointly by the Centre for Corporate Governance in Africa at the University of Stellenbosch Business School and the PIC in 2009. The team that developed the matrix comprised Prof Bob Garratt (chairman of the Centre), Thina Siwendu (senior research fellow of the Centre), Daniel Malan (director of the Centre), Deon Botha (corporate governance specialist at the PIC and senior research fellow of the Centre), as well as external experts that included Prof Philip Sutherland, Tom Wixley and Kwanele Gumbi.

The matrix incorporates existing PIC, South African and international corporate governance standards and best practice. Compliance-related information received from the PIC was balanced with 'softer' measures on adherence to the fundamental corporate governance values of transparency, honesty and accountability. The emphasis was on the development of core indicators that focus on material issues and performance, rather than making use of extensive tick-box questions on technical issues.

The aspects of disclosure, compliance and performance are interlinked – for example, in some cases disclosure in itself will constitute compliance. Although it could be argued that performance is more important than disclosure, it remains critical – from a stakeholder engagement perspective – to include disclosure as a requirement, since, without it, there is no basis for engagement. This complex interrelationship is displayed in Figure 1 .

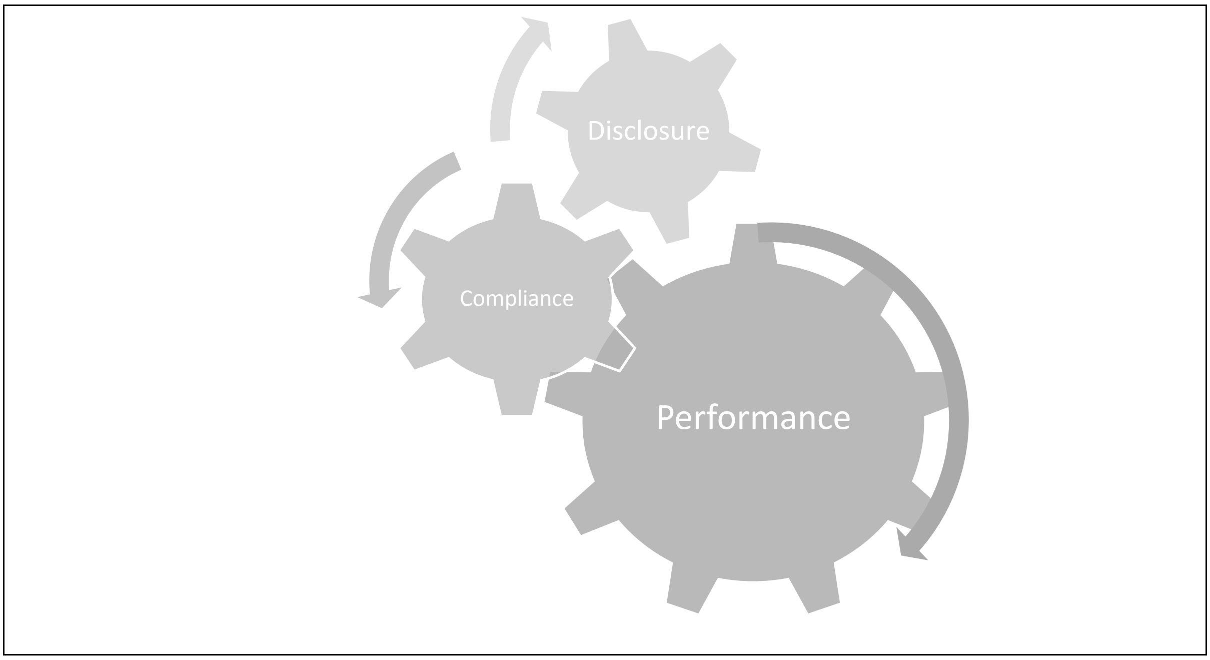

Figure 55: The relationship between disclosure, compliance and performance

The matrix includes 16 categories: board, individual directors, executive management, remuneration, shareholder treatment, auditing and accounting, disclosure and reporting, corporate behaviour, corporate culture, sustainability report, UN Global Compact, human rights, transformation, health and safety, corporate responsibility, and environment. Scores are allocated based on research performed by analysts, using publicly available information only. It is however acknowledged that the reliance on publicly available information presents a challenge in terms of distinguishing between aspirational and performance-based information.