Flags of Inconvenience? The Global Compact and the Future of the United Nations

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Abstract

The Global Compact is an important initiative within the terrain of corporate social responsibility. In addition, it could play an important role in the future of the United Nations, for good or for ill. As it has grown, the role, effects, and accountability of the initiative have generated some concern. Criticisms are reviewed, and suggestions made for addressing them. A new programme of work is proposed for the Compact, which would see it moving towards a systems view of corporate responsibility. As it is an inter-governmental body, the UN’s member states are not ‘flags of inconvenience’ to be held at arms length, but central to the UN’s role and profile. Therefore the future of the Compact must consider how corporations can help and not undermine States in better serving “we the peoples.” The argument is made that corporations should support the Compact in this new agenda as an application of a more meaningful concept of ‘corporate citizenship’ – specifically the obligation to be held to account by one’s community.

Keywords:
United Nations, Global Compact, Corporate Citizenship, Corporate Social Responsibility, Global Governance, International Relations, Globalisation

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“We all have to recognize – no matter how great our strength – that we must deny ourselves the license to do always as we please.”
Harold Truman, 1945

Compact Context
In 2004 the United Nations moved into its 60th year of existence. The organization faces a different set of political and economic forces than those at its founding, which have lead some to suggest it is slipping toward early retirement. How can an organization established to mediate between (and influence) Nation States in order to promote peace and progress, pursue this mandate in a world where global business and civil society have become major powers, while one State and one economic system have become dominant in international affairs?

A variety of UN staff and commentators have suggested that increasing collaboration between the UN system and non-state actors in the business and voluntary sectors is one means of adapting to this new context. The Global Compact is often discussed in this context. Increasing collaboration with non-state actors is, however, a complicated challenge, if the UN is to uphold the fundamental principles set out in its founding charter.

The UN was established to foster the two goals of peace, understood as the absence of civil and international war, and progress, understood as the realization of human rights. These goals were sometimes complementary, and sometimes not, depending on the political systems and our perceptions of progress. The UN pursued these goals, with questionable success, on the basis of two main philosophies. First was to bring together the most powerful groups who might have the most destructive confrontations, and give them supreme and undemocratic power in international affairs. Second, was to engage other powerful groups, identified as the governments of other Nation States, in a more democratic process of dialogue and resolution. The first invention was called the Security Council, the second was called the General Assembly. Therefore the UN embodied both a Hobbesian view of how to achieve peace, by helping to promote a monopoly of the justified use of force through the Security Council, and the more Locke-ite idea of justifying systems of governance through mechanisms of accountability, through the General Assembly.
In the 21st Century the context seems somewhat different; growing terrorism reminds us that Nation States do not have a monopoly on violence within their political communities. Globalisation means they neither have a monopoly on political power in the international sphere and no longer represent competing political-economic ideologies, as most administer variants of capitalism. It appears that mediation between States alone, in either democratic or undemocratic ways, will not achieve either original goal of peace or progress.

One basic premise of the UN, explained by Harold Truman at the founding conference of the organization in 1945 is as pertinent today as it was then: “We all have to recognize – no matter how great our strength – that we must deny ourselves the license to do always as we please.” This came from the President of a nation whose global dominance was even greater than it is today. After the 2nd World War, all other great powers lay in ruins, while the United States of America (US) itself was unscathed by bombing or invasion. US factories were working at full tilt, its armed forces were the most powerful in the world by far, and it was only months from unveiling the atomic bomb, which no other country possessed. Some estimates put US economic output at half of the world's total (Schlesinger, 2003). The UN came about in part due to the most powerful organization in the world – the US – recognizing that it must establish constraints on its own power. That it must help establish systems that would require itself and others to be accountable to a new international community.

It is this premise that needs to be remembered and upheld within the UN system, as it engages with other players in the international sphere – namely business. As some companies and finance have become transnational, they are able to both influence and escape the actions of States. There is a lack of global regulation to match the global operation of private enterprise. Worse, those mechanisms that do exist to regulate trade, investment and business operations have been developed with questionable accountability to people affected by them and the global economy.

The UN has not been able to deal with this governance gap directly, as its mandate has been to engage States to make pronouncements on, influence and work with, other States – not non-state actors like business. In addition, its mandate has been to
promote peace and progress, rather than enforce this. Enforcement can only come when the Security Council resolves to enforce – a situation that has limited the ability of the UN to achieve its aims, due to the constituents in that Council.

Therefore, within the context of globalization and the aim of promoting peace and progress, the UN has begun working more closely with non-state actors. Civil society has become increasingly involved in UN processes (Gordenker, 1996). During the 1990s relations with another non-state actor, business, also increased. Business had been involved in some aspects of the UN system, such as the International Labour Office (ILO) since its inception, but large companies were now becoming sponsors of projects run by various UN agencies such as UNICEF, and the World Health Organisation (WHO). The range of relations with companies, often called “partnerships”, was chronicled in a book prepared for the Global Compact (Nelson, 2002). Some relations involve financial support from companies, others not. The launch of the Global Compact in 1999 was a significant example of this trend, as well as facilitating it, through encouragement of more relations between the UN and business. As various UN agencies are using corporate participation in the Compact as a sign of good faith on behalf of the company, it is becoming a factor in their own decisions about relations with the corporate sector.

The UN Global Compact came to life through the work of Georg Kell and John Gerrard Ruggie, who were working in the office of the UN Secretary-General Kofi Annan. They saw how NGOs were beginning to encourage positive changes in corporate behaviour on environmental and social issues, and considered that the UN might be able to act similarly. They had witnessed how previous attempts within the UN to raise the requirements on international business had failed due to political pressure from powerful states – the closure of the UN’s Centre on Transnational Corporations in 1992 being a prime example. Kofi Annan was, therefore, interested in the idea of inviting voluntary business endorsement of the UN’s goals and called for greater corporate responsibility at the World Economic Forum in Davos in 1999. He emphasised there that the world is characterised by glaring and unsustainable imbalances and inequities and suggested that markets are not embedded in universal human values and rights. He suggested that businesses should work in a spirit of enlightened self-interest to make globalisation more inclusive, and
consequently less fragile. Many business leaders responded, and the Global Compact was therefore borne.

Three agencies came together to help the Secretary General’s office launch the initiative – the International Labour Office (ILO), the United Nations Environment Programme (UNEP) and the Office of the High Commissioner for Human Rights (OHCHR). They developed nine principles for responsible business, detailed in Box 1.

Since then the Compact office has had two key aims. The first involves efforts to internalise the principles in business by making them part of business strategy and operations. The second is to facilitate co-operation and collective problem-solving between different stakeholders. “To these ends, the Global Compact fosters a network-based approach at the local, national, regional and global levels using the following engagement mechanisms:
- Leadership: initiating change through CEO commitment to the principles
- Dialogue: including a multi-stakeholder approach to identify problems and find solutions
- Learning: reinforcing dialogue through examples and identifying what works
- Outreach/networks: providing frameworks for action at the country, regional or sectoral level” (Kell, 2003).

Box 1: The Global Compact Principles

The Global Compact’s nine principles in the areas of human rights, labour and the environment enjoy universal consensus being 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
Box 1 (Continued)

The nine principles are:

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

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

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

For more information on each principle see [www.unglobalcompact.org](http://www.unglobalcompact.org)

In the few years of its existence the Global Compact has helped to increase awareness of the concept of corporate social responsibility around the world. Hundreds of companies are participating from around the world, albeit to very different levels. In India, for example, around 90 leading companies have joined the Compact, along with a plethora of industry associations, employer organisations and professional bodies. This coalescing of initiatives around the idea of the Global Compact has made it a significant initiative in the terrain of corporate social responsibility. Growing interest in the Compact in particular is illustrated by a number of publications, such as the special issue of the *Journal of Corporate Citizenship*
(Issue 11, 2003). In that special issue, commentators were supportive of the Global Compact. Many echo the arguments of its founders and supporters – that it is an innovative response from Secretary General Kofi Annan to the challenges of globalisation. The Compact is indeed an innovative approach, as it escapes the bureaucratic restrictions placed on the work of most UN agencies, and seeks to promote action on the basis of values, rather than control action on the basis of rules. Some have applauded it as a “network model” of organization, with activity dispersed through the network and new initiatives arising from the network, not the center. Although this does create potential for innovation, it also causes a range of problems, which will be discussed in this paper.

These problems are leading to increasing criticism of the Global Compact, its role, its effects, and its accountability. In this paper I argue that these criticism are not marginal, but will become more central as the Compact grows. In response, I suggest that we need to understand that the UN is a complex set of institutions, with a unique political mandate. Consequently we must remember the politics involved when we consider the role of the Global Compact in promoting corporate citizenship and reducing corporate irresponsibility. I suggest that more open dialogue is required on the UN’s relations with the private sector as these will help determine how the UN serves the goals of peace and progress in future decades. I make some specific suggestions on how the Compact should move forward in addressing this. I conclude that the Compact must reconsider its relationship with UN member States. These States have helped give the UN its unique role in the world, and thus the power of its brand to mobilize action. Although narrow governmental interests have stultified the process of international cooperation, we must not ignore these States as “flags of inconvenience.” Instead, the UN secretariat should aim for its relations with corporations to help States serve “we the peoples”. In sum this is a call for a major overhaul of the UN’s relations with business.

In the following section I highlight some of those persons and groups that have criticized the Compact and wider UN relations with the private sector. I suggest that these are important enough for the concerns to be looked at and responded to progressively. Second, I detail some of the specific problems that are being raised, and briefly discuss some possible ways of addressing them. Third, I suggest what is
ultimately required from institutions of global governance in relation to the private sector, and thus call for the development of a work programme for the GC that will help not hinder that goal. Finally, I explain why corporations should support the Compact in this process, both in terms of the personal ethics of managers, and the economic case for their companies.

**Dangerous Liaisons?**

“The Global Compact and its cousin partnerships at other UN agencies threaten the mission and integrity of the United Nations” argued the US group CorpWatch (Bruno and Karliner, 2000, p.1). The group acts as Secretariat for an ‘Alliance for a Corporate-Free United Nations’. Alliance members have written to the Secretary General and heads of other UN agencies to express their concern. Other groups, including the International Baby Food Action Network (IBFAN), the Third World Centre Europe (CETIM) and the Berne Declaration have published critiques of the Compact (Richter, 2003), which call for a coalition to be formed to disband the Compact. The response of the Compact’s officers has generally suggested that these groups misunderstand the Compact, and that they represent a marginal viewpoint.

However, groups that participate on the Compact’s Advisory Council have also begun raising concerns. Oxfam International, Amnesty International, Lawyers Committee for Human Rights and Human Rights Watch wrote a joint letter to the Deputy Secretary General publicly expressing their concerns about the Compact and that although these had been expressed internally, they had not been acted upon. They indicated their continued participation was becoming problematic (Hobbs et al, 2003).

There has also been criticism from within the UN system. The UN’s specialist research institute on development issues has questioned the role of the Global Compact. The Deputy Director of the UN Research Institute for Social Development (UNRISD) published a critique in the *UN Chronicle*. “As currently constituted”, he says, the UN’s “growing proximity to big business is generating tensions with certain sectors of civil society that are critical of this relationship. Such criticism cannot be dismissed as the lone voice of radical single-issue advocacy NGOs. As was evident from the large gatherings of NGOs and grassroots organizations at the World Social
Forum and the Johannesburg Summit, it is these voices that are at the forefront of much of the thinking and advocacy on "alternative globalization" that is gathering momentum worldwide" (Utting, 2003, p. 1). UNRISD also published a major study that critiques the Compact (Zammit, 2004). Concerns about the Compact have been expressed directly to me by members of three other UN agencies.

It does not appear that there has been much constructive dialogue between these critics and the secretariat of the Compact. Communication is typified by open letters, which appear political rather than constructive. Consequently, criticisms have not reached the official agenda of the UN. For example, the Secretary General’s report to the General Assembly on the development of partnerships between the UN and the private sector, the writing of which was coordinated by members of the Global Compact Office, did not address the variety of concerns that are being raised (UN, 2003). Avoiding criticism and critics is not a sustainable strategy, especially as some of these exist within the UN itself. A more substantive process of dialogue on the issue of the organizations corporate relations is still required. This process must look closely at the various concerns raised, and it is to these that I now turn.

**Specific Challenges for the Global Compact**

There are five key criticisms of the Compact, which I review in this section, along with some brief suggestions for how these could be addressed. First, some argue that it is wrong for business with questionable practices to participate in the Compact, that there is little monitoring of their commitments, and that participation can thus diffuse criticism of individual companies. Second, some suggest that the Compact could compound the power of large companies in the global economy, with negative implications for development. Third, that key issues necessary to improving the practice of all corporate actors are being sidelined or undermined, such as macro-economic questions and concerns about mandatory corporate accountability. Fourth, that the Compact is allowing its own agenda to be shaped by business, as well as other parts of the UN and allowing the organisation’s name to be used by some companies to promote their own perspectives and interests. Fifth, that these problems cannot be addressed while the Compact is not itself more accountable to the UN system of agencies and member States.
Who participates, how they are monitored, and how they benefit

Some argue that it is wrong for business with questionable practices to participate in the Compact, that there is little monitoring of their commitments, and that participation can thus diffuse criticism of specific companies. For example, IBFAN have complained about the participation of the Swiss-based transnational Nestlé. The organization accuses the company of a long-standing record of poor compliance with the 1981 International Code of Marketing of Breastmilk Substitutes, which was developed by the World Health Organisation, a UN body, in response to the marketing malpractices of baby food companies which lead to death and poor health in infants and young children around the world. The company has challenged whether the provisions of the Code apply to all breastmilk substitutes and all countries, something that UNICEF (2000) criticized as illustrative as an “attempt to limit the application of the Code.”

In response the Compact office stresses that it focuses on helping companies learn about how to improve their practices. Exclusion is currently limited to a few sectors involved in specific activities such as landmine production. The idea that no matter how bad you are you can improve is an interesting starting point, although questionable given the guidelines on UN relations with business, which I discuss below. In any case, this starting point creates an obligation to demonstrate that participants are committed to learning and are over time learning in ways that correlate with the espoused aims of the Compact.

However, there is concern that systems for monitoring companies performance and learning have weakened. Some members of the Compact’s Advisory Council have also raised concerns that such mechanisms have weakened since the start of the initiative, with companies no longer obliged to report on their performance in relation to all the principles, this information not being public and not the basis for commentary by, and dialogue with, civil society. They also argue that criteria need to be adopted to deal with cases where companies are alleged to breach the Global Compact principles (Hobbs et al, 2002).
A related concern here is that by participating in the Compact, companies with poor practices may be able to diffuse criticism. The Compact office has been careful to communicate that it is not an endorsement of participating companies, yet association with the UN is one of the key motivations for participation. In addition, other UN agencies are using a company's participation in the Compact as an indicator of a company being suitable as a potential partner. Therefore, systems for screening and monitoring companies would still be important, even if no official endorsement is involved.

How might these concerns be addressed? First is the issue of initial screening, and then monitoring of practices, or hearing complaints. Although continuous improvement may be the philosophy of the Compact, this doesn’t mean there need not be an initial threshold of performance. It is important to note at the outset that UN staff, including those of the Compact office, have been requested by the Secretary General to check corporate practices in ways which go beyond the nine principles. The Guidelines on Cooperation between the United Nations and the Business Community (UN, 2000), explain that “cooperation with business can take many forms, such as advocacy, fund-raising, policy dialogue, humanitarian assistance and development cooperation,” which means they apply to the Global Compact staff. This raises two issues. First, whether the Compact office should check member companies against the exclusion criteria of these Guidelines, which state that “business entities that are complicit in human rights abuses, tolerate forced or compulsory labour or the use of child labour, are involved in the sale or manufacture of anti-personnel mines or their components, or that otherwise do not meet relevant obligations or responsibilities by the United Nations, are not eligible for partnership.” Second, whether they should assess member companies against the Guideline’s provision that "business partners should demonstrate responsible citizenship by supporting UN causes and core values as reflected in the Charter and other relevant conventions and treaties."

With a small secretariat such monitoring appears an impossible task. However, four activities could be considered as a basic response. First, awareness and understanding of the guidelines across the UN system needs to be promoted, as well as that of current and potential corporate partners. Second, the documenting of what
these guidelines actually mean in practice is necessary i.e. what the conventions mean for companies. Third, public and transparent systems to hear complaints about companies who either do or do not cooperate with the UN system need to be established. Fourth, internal processes to hear complaints about UN staff who might not abide by the guidelines need to be established.

The second challenge described above has already been addressed to some extent in another part of the UN system – the Sub-Commission for the Promotion and Protection of Human Rights. A working group developed the *UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights* (UN Sub-Commission, 2003). The Norms make clear a range of legal obligations for companies, based on existing international human rights, labour and environmental standards. Their use by the Office of the High Commissioner for Human Rights (OHCHR) is yet to be seen and depends on decisions made at the Commission for Human Rights. Proposals include establishing a working group that would hear complaints about companies breaching the Norms. This may go some way to addressing the unacceptable situation that arose when the UN’s Security Council issued a report on the civil war in the Democratic Republic of Congo. The report noted that commercial interest in the country’s natural resources helped fuel the four-year civil war in which more than two million people died. It listed 85 companies considered to be in breach of the Guidelines for Multinational Enterprises developed by the Organisation for Economic Cooperation and Development (OECD). The OECD questioned whether the UN could determine this and also said that unless complaints were formally filed with their National Contact Points they would not be able to act in the matter.

This situation raises two questions. First, why should the highest council of the world’s premiere intergovernmental body need to refer to a code developed by a different organization, the OECD, that only represents some States? Some of the companies criticized were not from OECD countries, while the Congo is not an OECD country and does not have a say in their Guidelines. The UN is tasked with the promotion of human rights and peace, and has its own conventions and codes that relate to various aspects of business practice. The Norms developed by the Sub-Commission are therefore essential for the UN to carry out its mandate. The second
question is why the UN does not have its own system of complaints and adjudications, which could conduct investigations to a standard that would have legal standing, and that would be linked to an internal process to ensure UN agencies did not have commercial dealings with companies judged to be in contravention of UN standards, either by the UN or by courts of law. Proposals from the Sub-Commission for a working group to be established to hear complaints about the Norms is a step towards this, as are the recommendations from the Advisory Council to the Global Compact that the UN system move to put its own operations in alignment with the principles it espouses. This will mean assessing the companies with which it has commercial relations, including suppliers, subcontractors, as well as those invested in through the UN Joint Staff Pension Fund and other savings. It would also mean looking at the environmental management and labour practices of UN agencies. The Compact should promote this agenda of work, although it should not necessarily conduct this itself, as it would require an inter-agency task force. This issue is returned to below.

The Compact has set its own, additional requirements on companies, related to institutional learning, which it must itself seek to monitor. Once companies have joined, there need to be criteria for demonstrating progress in one’s application to and achievement of learning. Monitoring and evaluation of both personal and institutional learning is an area of existing expertise, so movement on this should be forthcoming. Who will then be able to assess learning performance is a key issue to consider. There may need to be procedures for when the Compact office considers that the commitment and learning is not enough, or when others inside or outside the Compact believe this. Thus, a transparent process for hearing complaints on learning performance, expulsion from the Compact, and appeals, could be developed.

There is much to be done. The trend has been for the Compact to move toward less robust approach. For example, one staff member of the International Labour Office (ILO) explained to me their concern that companies could qualify their commitment to the nine principles, with one South African mining company arguably reneging on its full commitment to the principle of freedom of association in a letter to the Compact office, which was, initially, accepted. Given the variety of other issues that have been
raised, which I now examine, it is urgent that officers and participants in the Compact do not seek to weaken its procedures.

**Compounding corporate power?**

Some commentators on the Compact have suggested that its efforts could compound the power of large companies in the global economy, with negative implications for development. This argument is made most strongly by the UN’s own research institute for development issues – UNRISD – and relates to four issues: enhancing the image and thus financial performance of Northern based TNCs, facilitating large corporations policy advocacy to governmental and intergovernmental bodies, promoting an uncritical attitude towards Foreign Direct Investment (FDI), and promoting notions of corporate responsibility that have been developed in the West.

TNCs are the usual partner for most UN partnership projects (Nelson, 2002). This is because many, if not most, partnerships between the UN and business involve financial contributions from the corporate partner. Not only do TNCs have such funds, but they have an interest in associating with the global brand of the UN and its agencies. I was once asked by someone assessing potential corporate ‘partners’ for one UN agency which banana TNC would be the most ethical to work with. Given the existence of fairtrade and organic banana producers and traders, who have preferable social and environmental credentials to and compete with banana TNCs, my suggestion was that they look beyond the major TNCs. This was, however, unworkable advice for that UN staff member, as such companies would not be particularly interested in the reputational benefits of sponsoring the UN. However, if the widely-touted reputational benefits for a sponsoring TNC are real, then these relationships are helping certain TNCs to improve their performance, and thus profits. Given that most of the corporate beneficiaries of such partnerships are large corporations, most often with headquarters in the richest countries, these new relationships could be challenged as a contravention of the UN’s role. This is because the UN’s Charter is clear that the organisation should not work to benefit the particular interests of any one Nation State, its enterprises or citizens, to the detriment of others. As the Guidelines on relations with business say, there should be “No unfair advantage: Every member of the business community should have the opportunity to propose cooperative arrangements…” (UN, 2000). We should
remember here that business involves competition – if one company increases market share, another can lose market share.

This is the somewhat awkward context within which the Global Compact sits. It has been argued by its founders and participants that the Compact is not about raising funds – it is about encouraging better corporate practices. However, the existence of the Compact does indeed facilitate corporate sponsors of other UN activities and agencies, so this issue needs to be considered.

By 2004, TNCs and Northern based companies had been more heavily represented in the Compact’s activities, such as the policy dialogues, than smaller companies. Some member states of the UN may begin to question the political implications of any influence on the agendas and programmes of intergovernmental bodies. The Compact has focused on increasing membership from Southern companies, particularly with the establishment of National Compacts. However, Zammit (2004) argues that corporate participation in National Compacts provides opportunities to influence national development policy to suit corporate interests and which may be contrary to others’ interests. This relates to the question of promoting policy environments favourable to FDI.

A third aspect to the concern that the Compact may compound corporate power arises from the, perceived, uncritical promotion of Foreign Direct Investment (FDI) by the Compact office and its partners. Zammit (2004) argues that they seem to imply that, in view of Southern countries’ lack of capital, foreign investment in them by northern businesses is a clear manifestation of corporate responsibility. There is, however, a significant literature from across the ideological spectrum on FDI and TNC presence in Southern countries that points to potentially significant costs and risks for host countries as well as benefits (UNRISD, 1995; Singh, 2002). Balance of payments problems, ‘crowding out’ competitors and anti-competitive abuses of market power, transfer pricing and tax evasion, de-skilling, price rises, currency instability, labour rights problems and environmental damage are among the negative impacts that can be associated with FDI. With privatization and takeovers, FDI does not necessarily entail the introduction of new technology or productive assets. Moreover, in developing countries with little limited local capabilities any benefits
attached to inward FDI may be transient (UNCTAD, 2002, p. 3). Therefore, any assumption that FDI is itself an expression of corporate responsibility is entirely unfounded, and any belief that removing restrictions on FDI is compatible with corporate responsibility and the aims of the UN is misguided. Ann Zammit (2004) therefore argues that in providing additional encouragement to and opportunities for FDI in Southern countries, the Global Compact not only overlooks potential costs and risks for those countries, but also runs the risk of being perceived as overlooking these because it is captive to TNC interests.

The fourth area of concern relates to whether the Compact is promoting not only the power of Western corporations but also a Western view of corporate responsibility, promoted also by Northern NGOs, which may not be congruent with the values and practices of Southern nations. For example, there is growing evidence that small and medium size enterprises (SMEs), as well as larger enterprises, in the global South manifest corporate responsibility in ways that, while not always registering points on the nine principles score card, do qualify as ethically and socially responsible behaviour (UNIDO, 2002). My own research has shown that models of monitoring, verifying and certifying codes of conduct on workplace issues reflect the interests of Western-based auditing companies and undermine Southern local initiatives with more transformative approaches (Bendell, 2001; Prieto and Bendell, 2002). Even the definition of ‘ethical trade’ by Western groups like the Ethical Trading Initiative (ETI) locate the problem in Southern suppliers rather than the practices of Northern buyers, to the detriment of Southern stakeholders and their own proposals and practices (Bendell, 2004). Given growing concerns about the protectionist affects of social and environmental standards in trade, the Compact must be careful not to enhance a Western agenda as it supports the interpretation and implementation of its global principles.

There are a variety of responses to these problems that could be considered. On the question of corporate sponsorship, there is a need to assess the ‘end game’ of this funding mechanism – for example, what would the political implications be if 50% of the UN’s funding came from the private sector? Would this be acceptable? The UN should consider the implications of not seeking corporate sponsorship at all (which is already the policy of many UN agencies). There are, after all, various NGOs,
universities and companies that currently accept funding from private corporations to do development and peace related work and research. Alternatively, geographical balance in corporate sponsors could be sought, as there are large corporations in the South that might be interested, or new rules could be developed that require any corporate partnership to involve domestic entrepreneurs, and be the result of a proactive agenda from the UN and not the response to approaches by corporate donors. The practicality of such suggestions would need to be addressed, and the Global Compact could usefully serve the UN system by facilitating a dialogue on this.

On the issue of unbalanced corporate participation in dialogues, the Global Compact could embrace the concept of ‘stakeholder democracy’, as a way of operationalising the values in the UN Charter. This would mean that the dialogue-oriented activities of the Compact focus on providing a meaningful opportunity for involving those who are affected by an issue or decision to have a voice. Therefore, the Compact could renew its efforts to pluralise participation in its events, particularly encouraging the participation of civil society and enterprise from Southern countries, in both its national and global events. Some steps have been made in involving Southern businesses, and in establishing National Compact. However, to address the challenge properly will require funds to pay for the costs of participation.

For such participation to happen, the current agenda and possible assumptions of the Compact must be open to debate. Therefore the pursuit of a comfortable consensus could be avoided. One of the assumptions that may be challenged when pluralizing participation is that FDI from TNCs in Southern countries is always a good thing. Instead, focus should shift to how governments and corporations can both be supported to ensure FDI enhances Southern countries’ own capacity to provide social investment, products and services, and enhance the capacity of their firms to compete nationally and internationally. The Compact should seek to ensure its work with TNCs does not create dependency either on particular foreign companies or foreign capital more generally but helps build local competences.
Systemic issues are sidelined, initiatives undermined

The origin of the Compact was partly in the failure of the UN to play a more significant role in regulating the practices of international business operations. It was intended as a small contribution to changing the practices of business, given the political constraints on the UN’s activities. However, as the Compact has grown and become more well-known, so it has been heralded as a significant symbol of what is appropriate and possible in a globalised world. People have developed very different opinions as to what it proves or what it implies. Some participants in and commentators on partnerships suggest that they demonstrate how we can achieve social progress through voluntary measures, and that regulation of corporate activities is not required. Therefore, when criticizing voluntary partnerships, many people describe not what the partnership does, but what it prevents from being done. The same is true of the Compact, as various participants and commentators suggest that it means we do not need regulatory innovations or systemic changes to global capitalism and the international trading regime. Therefore a number of critics, including Peter Utting (2003) of UNRISD, have questioned whether the key issues necessary to improving the practice of all corporate actors, such as macro-economic policies and mechanisms for mandatory corporate accountability are being sidelined or undermined by the existence of the Compact.

The first issue to consider here is macro-economics and trading relations, which have a major affect on the development realities and potential of Southern countries, and which have been shaped by corporate lobbying over previous decades. Two examples will suffice here. Increasing corporate consolidation of access to markets and lobbying against co-operation between Southern governments to control their production levels have led to falling prices in the last three decades. For example, prices of agricultural commodities have been on an almost continuous decline since 1980, and since Southern countries are heavily reliant on agricultural exports falling commodity prices have contributed greatly to their difficulties. Annual losses in purchasing power due to deteriorating terms of trade are estimated to cost developing countries US$2.5 billion a year and mean that countries have to run faster merely to stand still (ILO, 2000). Tax provides a second example. Transfer pricing is the practice where one company reports that it sells products to another company in
the same group at a higher or lower price to ensure the profits can be recorded in the company that faces lower tax rates. It is about moving money from one country to another to avoid tax and has been estimated to cost over $50bn a year to countries in the global South (Bendell and Young, 2002). This practice is not without social consequences, given the poor state of national budgets in many Southern countries, and because governments have little option but to shift the tax burden onto labour, raising the costs of employment and reducing the take-home wages.

These are just two macro-economic problems that companies have influenced and are influenced by, and are among a range of systemic issues that must be tackled if the global economy is to be more supportive of social development. In the past the business world generally has promoted frameworks that facilitate greater freedom for enterprises both at the national and international level, while at the same time narrowing the room for policy manoeuvre for Southern governments. If the Compact continues to side-step the negative influences of corporate political lobbying on these macro-economic issues, while its existence is used by some to support that lobbying, then the benefits of the Compact that are described by proponents will come at a high price.

The second issue to consider is how the Compact relates to calls for improved legal mechanisms for holding corporations to account. It should be noted that available research suggests that the economic case for companies voluntarily acting on social and environmental issues is not certain, and depends on the industry and the context. Although some companies may begin to act voluntarily, and should be encouraged, this does little to protect society from those who do not. Even though only hundreds of the 65,000 TNCs are involved in the Global Compact, some participants, such as the International Chamber of Commerce (ICC), have suggested that the Compact illustrates that voluntary approaches are the way forward. Compact officers themselves have stressed that they do not have an opinion on this, and that they hope the Compact’s efforts can be complementary to any regulatory innovations. However, the experience of the Compact’s relationship to the UN Norms, mentioned above, has raised concern that the Compact could be, whether its staff want it or not, undermining the progress of work on corporate accountability elsewhere in the UN system. Echoing the arguments of the ICC a year earlier, the
President of the US Council for International Business, criticized the Norms, basing his argument on the growth of voluntary initiatives such as the UN Global Compact (BBC, 2003). Therefore some members of the Advisory Council to the Compact have criticized the Compact officers for not calling on its members to show leadership in supporting the Norms (Hobbs, et al. 2003).

Their concern is supported by the Guidelines on the UN’s cooperation with business, detailed earlier. These are clear that corporations cooperating with the UN should support the UN’s role and activities. This includes support for the UN’s implementation of conventions and treaties, and the implementation of mandates given to its agencies by member States. As the Sub-Commission was acting on a mandate from governments, in lobbying against this process while using the Compact as evidence, the ICC could be contravening the provisions in the Guidelines, and thus by not disciplining the ICC, Compact officers may leave themselves open to criticism for failing to uphold these Guidelines.

The Compact office could respond to this possible sidelining or undermining of macro-economic issues and progress toward mandatory corporate accountability by beginning a dialogue on ways of creating change across all business actors, not just its partners. First, it could seek to expand the debate about corporate citizenship to include how companies use their political power and economic freedoms in ways that create an unhelpful macro-economic environment, and how this could be changed. Thus the Compact should apply its learning approach to political economy questions rather than just projects. As Peter Utting (2003) suggests, “Social learning should focus not only on the technicalities of specific interventions, dialogue and stakeholder relationships but also on the macro issues.” Participants need to be ‘learning to talk’ about economics and politics. This could relate to the arguments of the UN Conference on Trade and Development (UNCTAD) that we look at the economic dimensions of corporate citizenship (Bendell and Concannon, 2003).

The expanded dialogue would also need to include a new look at the role of regulation. The partnership agenda must be separated from a voluntarist perspective and neo-liberal economics paradigm, neither of which the UN has been mandated to promote. Therefore, partnerships should not undermine efforts at the UN to
encourage intergovernmental agreement on regulatory innovations to stimulate peace, security and sustainable development. Partnerships could even seek to support such efforts. Therefore the Compact should actively seek to complement the work of the UN system that has been formally mandated by member governments, rather than allowing its name to be used against this. Specifically, the Compact could promote the UN Norms as a means of further understanding its two principles on human rights, perhaps through policy dialogues and improve the understanding of its own staff and co-operators of the implications of the Guidelines and the broader role and work of the UN system, and discipline those participants who knowingly work against this.

Hitching a ride with business?

A fourth concern that has been raised is that that the Compact is allowing its own agenda to be shaped by business, and perhaps other parts of the UN, as well as allowing the UN’s name to be used by some companies to promote their own perspectives and interests. One co-publication by the Compact office illustrates this. In 2003 the British consulting firm Sustainability produced a report on NGO accountability, funded by a range of corporate sponsors (SustainAbility, 2003). The report was problematic for a number of reasons, detailed elsewhere (Bendell and Visser, 2003). However, the Compact and the UN’s Environment Programme (UNEP) lent their names to this report, although not directly involved in its preparation, and thus the report was advertised and reported as coming from the UN. "Adding the UN's name to this work might anger those who think the Compact is about diffusing criticism of companies by NGOs" said Jules Peck, of WWF-UK, while Judith Richter argued that “the UN's support, via the Global Compact, for the simplistic analyses presented in this study may damage efforts to hold corporations accountable to the world's citizens" (in Bendell and Visser, 2003).

The question of NGO accountability is one that has been with us for decades. Within development studies, various commentators have stressed the need for NGOs to be more accountable to those they aim to support, and various groups such as Action Aid have sought to empower their beneficiaries by putting representatives on their board (Hulme and Edwards, 1996; Hudock, 1999). If the Compact office was
interested in the issue then it could have approached centers of methodologically sound research expertise, institutions with a trust and mandate from civil society, or agencies within the UN system, such as the Non-Governmental Liaison Service (UN-NGLS) that have experience and expertise in this area. However, the Compact office responded to a for-profit consultancy with corporate funding that had identified a co-branding opportunity with the UN.

Therefore some suggest that the Compact office has been responding to those corporations and consultants who knock loudest and soonest on their doors, and who are able to fund the projects they propose. This reveals the downside of the network model of organization: if action and energy is dispersed through the network, then it is those actors in the network who have most access to funds who shape the agenda and work programme of the network.

To deal with this problem the Global Compact needs a strategic change of direction. As the premiere international organization in the world, the UN should be in the driving seat in its relations with business, not hitching a ride. UN agencies need to define their agenda on partnerships, in keeping with their mandates, and be proactive not reactive. Otherwise partnerships with the UN will serve the agendas of those with privileged access to the UN system. The Compact could consider the following developments in order to avoid this. First, it could work with UN agencies to establish a joint strategy and a proactive work programme. Second, it could assess how proposals arising from its network relate to this central strategy. Third, it could seek to use its corporate convening power to serve the existing UN agencies in executing their mandates. Fourth, it could initially look within the UN system when addressing policy issues, and if the expertise is not available, then approach independent centers of research excellence and not rely upon the consultancy industry involved in corporate responsibility issues. Ultimately, it should seek a core budget to help it execute this strategy.

**Questionable Accountability to the UN system**

In summarizing their various concerns with the Global Compact, some have argued that they derive from the fact that this is an initiative of some staff of the Secretary
General’s personal office, and that it has remained outside formal procedures of accountable governance. It is true that the various issues outlined above will probably only be addressed if the personalities involved in the Compact decide to act. Should international civil servants have such unaccountable power?

The answer has to be no. The civil servants involved should be commended for innovating something that has grown as quickly as the Global Compact. Their actions stand in contrast to the typically slow bureaucracy of the UN system. They have been able to achieve this due, in part, to not having an inter-governmental board directly controlling what they do. The reasons why inter-governmental disagreements seem to paralyze the UN system is something I discuss further below. However, the UN is an inter-governmental body, and so systems of accountability to governments are essential, even if government delegations are kept at arms length from specific operational decisions. The absence of this has led to criticisms that the Compact is being driven more by the ideologies of its administrators and partners than by the UN (Zammit, 2004).

The Global Compact is not alone in having its accountability challenged. By the end of 2003 there were fairly weak, sometimes non-existent, accountability mechanisms for most UN partnerships. The World Summit for Sustainable Development (WSSD) provided UN-backing for specific partnerships. This necessitates future monitoring, evaluation, sense-making and reporting on the conduct of these partnerships to the UN.

If the Global Compact and corporate partnerships really are a significant part of the UN’s future then governance issues needs to be addressed now. The following steps could be taken. First, the Global Compact office, the Secretary General’s Office, the UN agencies that are involved in the Compact and other interested groups within the UN system should all examine whether a new mechanism for governing the Compact could be devised. One option to consider would be to give the UN agencies a direct role in its governance: it could become an inter-agency project. Moreover, all the agencies that participate in the Compact could seek, with the help of the SG’s office, a mandate from their governing bodies to be active participants in the Compact, and thus have the necessary capacities and resources to work on it proactively. By the
beginning of 2004, the OHCHR did not have a mandate from the Commission for Human Rights to fully participate in the Compact’s work, even though it is a founding participant. Alternatively, an agency such as UNCTAD could be mandated to work on Global Compact issues, so the office has the option of becoming a programme of that agency.

This issue of accountability, as well as the four areas of concern discussed above, need to be addressed directly. Unfortunately, some of the NGOs and UN staff that are raising such issues say that they feel ignored or sidelined, and that the problems are becoming more acute. Although procedures for how the UN relates to businesses are young and teething problems are understandable, these are too important to the future of the UN for policies and practices not to be more coordinated and the result of wider dialogue both within and outside the UN system.

**A New Agenda for the Global Compact**

In the previous sections I have mapped out a range of areas that the Compact could explore, and procedures it could adopt, in order to play a constructive role in the future of the United Nations. A key theme in this analysis is that the participants in the Compact need to begin learning to talk more broadly about politics and economics and to face the fundamental questions about why globalising capitalism is not currently delivering for all the world’s people. In doing this, we should remember that the Compact would not be necessary if the UN’s government delegations truly represented the long-term interests of their peoples and were able to work together on issues of common concern. We can argue that with appropriate information on the situation of our planet, people would not choose to be represented in ways that undermine the global sustainable development of humankind. However, for a variety of reasons, governments do not seem to represent their people’s longer-term interests.

The UN secretariat must respond to this fact: Governments may be masters of the institution, but they are not masters of the situation. Current patterns of corporate power and global finance have impaired the ability of States to represent and serve “we the peoples”. Consequently, in its relations with business, the UN secretariat should seek to free Governments from these undemocratic pressures, so they can
effectively represent and serve the peoples of the world. The Global Compact could therefore seek to engage corporations in a dialogue on how to free the democratic spirit of member States. Unfortunately the secretariat of the UN’s various agencies may not have the means, skills and commitment to develop and implement such a transformative agenda. What is certain is that they will require both pressure and support from progressives within business and civil society.

The full implications of this approach to the UN’s relations with business will have to be developed, and here I present nine initial ideas.

First, the Compact could engage the corporate sector in dialogue and action to help liberate its member States from the undemocratic power of global financial flows. The equivalent of over a trillion dollars are traded every day in currency markets. This creates currency volatility that is responsible for increasing poverty in various regions, an example being Indonesia where poverty doubled as a result of the East Asian currency crisis (Weller and Hersh, 2002). Moreover, the currency markets exert a undemocratic pressures at all times, as any negative perspectives from finance companies on the politics of a sitting or prospective government can lead to a devaluation of its currency. Thus there was a run on the Real as Inacio Lula Da Silva moved toward the Presidency of Brazil (Beck, 2002). Consequently, governments like that of Brazil are restricted in their political freedoms by international banks. This situation needs to be addressed multilaterally, via currency transaction taxes or capital control agreements, and could be supported by some companies who also suffer from currency volatility, as well many banks, as only the top 20 account for about 80% of currency trading.

Second, the Compact could engage the corporate sector in dialogue and action to help liberate its Southern members from the undemocratic power of historic debts and the resultant economic and political prescriptions from international financial institutions and foreign governments. As the monies were lent unaccountably and have been paid back many times over, so called "third world debt" is a travesty, killing 19 thousand children every day as governments have to service the debt by cutting health, education, and various social services, and adopt ill-thought out trade
policies (UNDP, 1997, p. 93). Debt relief could be supported by some companies, North and South, as it would help economies to grow.

Third, the Compact could engage the corporate sector in dialogue and action to help liberate its member States from corruption, which undermines democratic governance. The blessing of natural resources has turned into a curse for many States in the South as foreign companies have sought to exploit them. Billions of dollars have been paid by foreign companies to African politicians to gain access to oils and minerals (Global Witness, 1999). This rewarding of corruption has led to ruthless and unaccountable governance. Voluntary responses have not worked. Laws on corrupt practices by companies operating overseas need to be developed further and better enforced, and companies obliged to publish what they pay to governments. Companies could support campaigns on this, as they gain nothing from corruption in the longer term. The Compact has begun work in this area, which should be extended.

Fourth, the Compact could engage the corporate sector in dialogue and action to help liberate its member States from rebel movements and civil war. Democracy requires peace. As discussed earlier, one of the worst wars in human history, in the Democratic Republic of Congo, killing over 2 million people, was carried out by armed groups who obtained much of their funds from foreign companies who were exploiting the countries mineral resources (Kassem, 2002). To prevent this from happening again, and to provide redress, will require a variety of measures including the establishment of mechanisms for prosecuting international corporate criminals. Companies could support this as abiding by their voluntary codes could lead them to being out competed by unscrupulous competitors. The Compact's work on this should therefore move beyond promoting codes of practice and engage corporations in dialogue and action on the question of legal innovations on corporate accountability.

Fifth, the Compact could engage the corporate sector in dialogue and action to help liberate its member States from declining revenues. As discussed earlier, transfer pricing and tax evasion is becoming increasingly problematic for governments. The response must be a regional or global regulatory innovation that requires
transparency of the internal pricing and tax activities of TNCs. Many large corporations who are not able to conduct transfer pricing could support such a move, as these practices put them on a less competitive footing.

Sixth, the Compact could engage the corporate sector in dialogue and action to help liberate its member States from the monopolizing practices of some companies. Free trade rhetoric has masked a reality of market monopolisation, where two thirds of world trade now occurs between the subsidiaries of the same groups of companies (ILO, 2000). Basic economic theory describes the societal problems that arise from monopolies yet today half the member states of the World Trade Organisation (WTO) do not have competition law. The time is right for a global competition framework. True entrepreneurs would support this, and thus many companies could, although probably not the TNCs that control or seek monopolies.

Seventh, the Compact could engage the corporate sector in dialogue and action to help liberate its member States and inter-governmental bodies from opaque corporate lobbying. Trade negotiations and agreements have been subjected to corporate lobbying, with either damaging or highly questionable effects. The General Agreement on Trade in Services (GATS) and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) would not exist without corporate lobbying. Pharmaceutical companies have been criticised for lobbying government delegations to the WTO to prevent agreements that would facilitate access to medicines. Some companies could support moves to require transparency in corporate lobbying, given the unequal access and influence of some of their competitors.

Eighth, the Compact could engage the corporate sector in dialogue and action to help liberate its member States from the undemocratic power of the corporate financing of election campaigns. Around the world, there are increasing calls from commentators on political processes to curb the influence of special interest money on politicians (Palast, 2002). In many countries you cannot become a viable candidate in elections unless you successfully appeal to corporate donors, a situation which is a travesty of democracy. Even in the US, there is a movement towards "clean elections" with a number of States having such elections. Again, some
companies could support moves to remove corporate funding of parties and election campaigns, as otherwise their competitors have unequal access and influence and can win policy concessions that undermine their own interests.

Ninth, the Compact could engage the corporate sector in dialogue and action to help liberate its member States from the institutionalized bias of corporate-owned mass media. Diverse forms of media are crucial to the functioning of a democracy. Recent decades have seen the consolidation of mass media by large corporations, so that 40% of the world’s media industry is now controlled by just 5 corporations (Simms et al, 2000). The political agenda is sometimes explicit, as illustrated by the corporate media’s factual inaccuracies during the attempted coup in Venezuela (Adams and Gunsun, 2002). However, most often it works in a more insidious manner, as profit seeking translates into a range of filters on the news and programming agenda (Chomsky and Hernan, 1994). Renewing democratic discourse will require pluralizing forms of mass media, including the promotion of different forms of ownership – by the State, and by community, not-for-profit, and domestic companies, rather than just TNCs. Some smaller media corporations could support work on this agenda.

These nine areas concern problems that have arisen due to an over-concentration of unaccountable corporate power. They must all be addressed if the UN is to help its member delegations become masters not servants of the global economy. If the Compact seeks to address these problems of corporate power, it would not be surprising if there is little leadership on this from its corporate participants. The UN and civil society must therefore take an initial lead. The current funding model of the Compact, and its network approach, will not help. Leadership on this agenda will require resources.

When embarking on this new agenda the Compact and its participants may need to adopt a new approach to dialogue and learning. Those Compact events I have attended have been hierarchical in approach, with a traditional conference format of speakers who are senior within their organizations. However, participants will need to acknowledge that those at the top of their profession in the corporate sector may not be the best people to understand the complexities of global political economy. Corporate executives have much to learn and unlearn. I am not alone in frustration at
sitting through speeches from people who have scaled their respective hierarchies and talk of their conversion to making the world a better place after a short poverty holiday. Instead, there are people with years of work and research on development, politics, economics, sociology, anthropology and law who should be engaged more centrally in the future of the Compact as it engages a more systemic analysis of corporate relations with society. The academic network of the Compact may have a greater role in this regard, especially those who are trained in disciplines additional to management studies.

**Conclusions: Citizenship Revisited**

The areas of work I have outlined above are an enactment of a systems view of a corporation’s relationship with society. Work on corporate responsibility has largely adopted a methodological individualism, believing that we can understand the problem and how to improve it by focusing on what one company does by itself. Take the issue of working standards. The methodological individualist focuses on what codes a company might adopt to improve the working conditions of its suppliers. Taking a systems view, we might ask why the problems have arisen in the first place, including why employees, communities, unions, local governments and so forth do not have their own power to rectify the situation. Such an approach would then consider a corporation’s responsibility for influencing policies that undermine the power of these constituents.

Thus the concept of “corporate social responsibility” can be reconceived. Given the need for all companies to change if we are to promote sustainable development, voluntary corporate responsibility need not, perhaps by definition should not, be “voluntarist” and promote de-regulation. Instead, the responsibility of one is to promote the accountability of all.

This brings us back to the concept of “corporate citizenship”. There appear to be three definitions in use. First, is when corporate citizenship is used to describe a company that acts to improve its own internal behaviour and also becomes involved in the community (McIntosh et al, 1998). Second, is when corporate citizenship is used to describe a social situation where companies take on the role of providing some of the basic needs and rights of citizens (Matten and Crane, 2003). However a
third definition sees citizenship as implying membership of a political community, to which rights and freedoms are relinquished, in return for benefiting from the fact that others must do the same. It is a concept of mandatory rights and mandatory obligations. Therefore, in the absence of an international framework of mandatory obligations of corporations to society, so corporate citizenship should mean support for developing such a framework, in return for the right to international ownership and movement of capital assets (Bendell, 2000).

Some companies, especially those who are already making a better impact on society than their competitors, would have nothing to fear from societies and governments being freed from oppressive corporate power, and thus more able to intervene in markets for sustainable outcomes. It is these companies that could adopt a deeper understanding of corporate citizenship, adopt a systems view of their responsibilities, and engage the Compact on a more transformative agenda. Nevertheless, there will be many participants who will fight against such an approach. A comfortable consensus is therefore impossible if the Compact is to be a progressive force in the future of the United Nations.

The echoes of Harold Truman’s statement at the founding of the United Nations are loud and clear. If global finance and transnational corporations are the most powerful force on the planet today, they should acknowledge that they must deny themselves the license to do always as they please. Although it has not always been implemented properly during the history of the organization, it is that principle of citizenship which is at the very heart of the United Nations. Thus, it should be at the heart of the UN’s relations with corporations.

If this does not happen then the Global Compact could play a key role in transforming the UN into a tool of vested interests in the global economy, which would be a travesty to the vision of its founders and staff, and undermine its ability to mediate between competing views, ideologies and power bases, as it is meant to do. The bombing of the UN headquarters in Baghdad, in 2003, illustrates the dreadful consequences that may arise when some people, mistakenly or not, regard the UN as an agent of dominant and self-serving forces.
The UN is about politics as well as values. It is an inter-governmental body, and its member states are not ‘flags of inconvenience’ to be held at arms length, but central to the UN’s role and profile. A future for the Compact lies in engaging corporations to help and not undermine States in better serving “we the peoples.”

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