

# THE UNITED NATIONS' GLOBAL COMPACT: AN OPPORTUNITY FOR CANADIAN LEADERSHIP

by Carol Stephenson and Paul Beamish

Corporations have increasingly begun to realize the importance of acting in a manner which reflects Corporate Social Responsibility. But how can one determine whether corporations are paying more than lip-service? A potentially effective measure is participation in the United Nations' Global Compact.

The role of multinational corporations has evolved in the global community, from sometimes exploiting emerging markets to leading initiatives that benefit global sustainable development. In 1999, Kofi Annan, then UN Secretary-General, established the Global Compact, challenging the global business community to join the United Nations in the quest to uphold 10 universal environmental and social principles including eliminating forced and compulsory labour, abolishing child labour, eliminating discrimination with respect to employment and occupation, promoting greater environmental responsibility, supporting and protecting human rights and recognizing the right to collective bargaining.

The purpose of the Global Compact is to forge mutual interests between the UN and the global business community. It has since grown to include 83 members of the 2006 Fortune Global 500 and hundreds of other firms.

Of the 500 largest Global Multinationals, 170 are based in the United States. The second highest concentration is in Japan with 70 while Britain and France each have 38. Canada has 14. However the U.S. and Japan are not pulling their weight when it comes to participating in the Global Compact. Looking at raw numbers, France and Britain are best represented, and are joined by Germany in third. In fact, on a participation percentage basis, the U.S. comes in at under 5% participation, compared with France's 47%. Canada has a 21% participation level but if even four more of our companies joined we would have the highest participation level among G8 countries.

When it comes to Global Compact participation, over 20% of major companies from the largest Western European countries participate, and collectively, these CSR-savvy companies represent a third of multinational corporations in the region. This is drastically different from the single-digit participation levels in the U.S. and Japan.

Why would some industrialized countries have such low participation? Perhaps American firms may be hesitant to join because they do not know what the ramifications will be from non-governmental organizations if they do not meet the ten principles of the Global Compact. As Alexandra MacCrae says,

The compact asks companies to embrace principles, rather than meet explicit standards — an approach "not easily understood in [America's] litigious culture."

Both American and Japanese companies are more conservative in environmental and social matters; both have a "wait and see" approach on these issues. Furthermore, the Japanese view Global Compact participation as a serious commitment, thus lengthening their commitment decision process. From a resource standpoint, given the corporate scandals in the United States that occurred shortly after the inception of the Global Compact, firms had to devote significant resources to meet the requirements set by the Sarbanes-Oxley Act rather than engage the Global Compact. Finally, while U.S. companies certainly sell to the global market, many cater predominantly to the U.S. market which has been historically U.S. centric. European countries, with smaller domestic markets, must cater to a more global market and benefit from an external "label" which validates their status as responsible corporate citizens.

### **Canadian multinationals and the Global Compact**

As a general supporter of UN initiatives, it is very surprising to us that Canadian multinational presence in the Global Compact is not even higher. Alcan, Bell Canada Enterprises and Bombardier are the sole participants from the Canadian representation in the Global 500. Other Canadian companies which are in the Global 500, but are not yet participants in the Global Compact, include our banks and large insurance companies.

The major Canadian firms not participating all have global competitors who do participate. Are some Canadian firms unaware of the Global Compact initiative and its role in the global community? Because there are so few major Canadian multinationals, some may not see short-term tangible benefits from joining the Global Compact.

As part of their growth strategies, most of the Canadian banking and insurance companies are expanding outside Canada. These companies will compete for customers with their Global Compact member firms in other parts of the world, particularly in emerging markets. We think Canada's banks and insurance companies should consider joining the Global Compact as a competitive advantage. While participation in this global initiative wouldn't add a level of differentiation compared with other Canadian companies, it would give them a boost in global competition. In other countries, banks such as HSBC Holdings, UBS AG, Credit Suisse and insurance companies such as AXA, AVIVA, and Allianz are participating members of the Global Compact.

In light of this, it would seem that many major Canadian firms have not yet evolved to incorporate social responsibility in their business strategy to the extent of their major global competitors. Some Canadian businesses have a fair bit of catching up to do.

**Graphic**

Canadian firms in the Global 500 who are not participants in the U.N.'s Global Compact

<b>Firm</b>	<b>Rank in Global 500</b>
Manulife Financial	227
George Weston	232
Royal Bank of Canada	250
Magna International	273
Power Corp. of Canada	290
Sun Life Financial Services	356
EnCana	396
Canadian Imperial Bank of Commerce	436
Toronto-Dominion Bank	440
Bank of Nova Scotia	446
Onex	474

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Carol Stephenson, Dean, Richard Ivey School of Business, The University of Western Ontario & Paul Beamish, Professor of International Business at Ivey