



A transatlantic comparison on corporate responsibility: UN Global Compact networks in Germany and the US

By Nicole Kranz¹

Rationale and Introduction

Businesses are more and more faced with the challenge of newly defining their role in society as they are increasingly accused for environmental destruction, human rights violations and corporate governance failures. In this context, concepts such as responsible corporate citizenship and corporate social responsibility have emerged over the past years, along with a widespread discussion among business actors, in academia as well as representatives from civil society about the validity, legitimacy and accountability of these concepts.

While discussions on the forms and even the meaning of the term corporate responsibility continue, it is more and more widely accepted that "CSR is here to stay". There is a growing awareness that the degradation of eco- and social systems as well as unacceptable human rights conditions significantly affect the way businesses can go about their affairs, as these lead to increasing risks and instabilities. Business is thus more and more finding itself looking for ways to control these risks and appear as responsible citizen, while shareholders and stakeholders are following this development critically from their perspective.

The approaches and strategies to be found among businesses across the world differ considerably in terms of focus area, rigor and last but not least success.

While businesses certainly become more and more globalized, taking a look at business actors from Germany and the US, as two major Western economies, also reveals differing responses to the challenge of corporate responsibility. These differences originate in part from the diverging business philosophies in the two countries as well as from other societal factors.

With the influence of national governments diminishing, and the challenges of corporate responsibility taking on a global dimension, numerous initiatives and alliances started by a wide range of different institutions and aimed at promoting the concept of responsible corporate citizenship through voluntary approaches have become an integral part of the world-wide movement for CSR.

One of the most prominent, while certainly not the only initiative, is the UN Global Compact, launched by UN Secretary General Kofi Annan in 1999 and currently counting roughly 2,000 participating businesses subscribing to ten principles in the areas of environmental protection, human and labor rights and anti-corruption.

Also with respect to this world-wide initiative, one finds considerable differences between situations Germany and the US: while the concept is fairly well received in Germany reflecting an overall positive acceptance of the initiative, it is just about to gain considerable momentum in the US.

It is however obvious that the success of the Global Compact will critically depend on its ability to initiate a process for constant improvement of corporate practice, a discussion on the evolving

¹ Free University Berlin, Collaborative Research Center on 'Governance in Areas of Limited Statehood' and Ecologic – Institute for International and European Environmental Management, nkranz@zedat.fu-berlin.de
Research prepared at the American Institute for Contemporary German Studies, Washington DC



concept of corporate citizenship among business actors and with other stakeholders. And, as with any global initiative, the Global Compact can only make an impact through local action in its local networks. Analyzing the different approaches to the Global Compact in Germany and the US allows for insight into the respective nature of the debate and process in the area of responsible corporate citizenship. In addition, such insights could also be helpful in increasing the impact of the initiative in the US as well as in maintaining and enhancing its momentum in Germany.

Looking at the evolution of the same initiative in the two countries forms a good basis for direct comparison and the identification of driving forces. However, it should also be noted that the analysis of the respective popularity and acceptance of the Global Compact in the two economies can only serve as a proxy to the highly diverse situation in each context.

In any case, this short analysis, which is based on interviews conducted in March and April 2006 with representatives from firms and other stakeholder groups, contributes to the discussion and reflection on the topic of responsible corporate citizenship from a new perspective. It complements the on-going debate of scholars and practitioners and also aims to bridge this gap by offering a short overview of the main aspects.

Box: The Global Compact network structure

In its seventh year of existence the UN Global Compact has gained considerable momentum. This is not only evidenced by the numerous countries that have joined the initiative, engaged in its learning forum and dialogue activities, but also through the debate that has been spurred among businesses, civil society groups and academia about this international governance framework for advancing responsible business behavior. The Compact has grown and it has undergone severe criticism as well. Critics mostly address the lack of an effective enforcement mechanism of the Compact's ten principles and thus slack performance of the participating companies. With the Compact being a voluntary initiative, it is not likely that strict enforcement mechanisms will be introduced. Rather Georg Kell, chief executive of the Global Compact highlights the positive aspects of the voluntary nature of the UNGC². Nevertheless, the Compact is evolving and is currently implementing a new governance structure, which was developed after several consultations.

In this new governance structure local networks will play an even more important role than before. National networks have so far sprung up in 82 countries showing different stages of development. While networks are initiated by a variety of different actors, such as innovative companies, UN agencies or national government agencies, in order to be recognized as an official network they need to fulfill the following prerequisites. There should be a strong commitment to the principles of the Global Compact and its modes of engagement with their own agenda and approach. Networks should be led by business, but be open for other stakeholders as well and offer opportunities for engagement. Networks are expected to hold at least one general meeting each year and establish a focal point in order to ensure communication with the Global Compact office in New York. The preparation of an Annual Report on its activities is also required from the local networks.

² PriceWaterhouseCoopers [2005]: The UN Global Compact: Moving to the Business Mainstream, An Interview with Georg Kell, Executive Head, PriceWaterhouseCoopers, The Corporate Responsibility Report, Volume II, Winter 2005.



Networks have emerged in several waves with the most established networks probably currently existing in European countries. The occurrence of strong networks also reflects the success of the Global Compact in developing and emerging economies with networks having been set up in Nigeria, South Africa, India, China and Mexico.

Local networks usually experience a number of evolutionary stages, which starts with the formation of the network and the establishment of a focal point. At this stage a few companies form the network, which are then joined by more companies thus forming a 'critical mass'. Most networks are currently at or approaching this stage. Further stages would comprise the formation of a steering committee, or the formalization of the network and then the recruitment of further member companies. Over the course of this development, collective action is expected to evolve from a mere networking activity into collective learning regarding local CSR challenges and issues and later also regarding transnational CSR issues. Participants will increasingly accept the Global Compact as a brand value which they nurture through their respective contribution to the ten principles.

Local networks are considered key in promoting the Compact's Integrity Measures and encourage the Communication on Progress among their member companies. National networks are expected to be the main drivers of compliance monitoring in the context of the Global Compact. While world-wide standards cannot be expected to be introduced at a global level, still local or regional networks can contribute to compliance monitoring the attainment of the principles. Other interpretations³ see national networks as platforms for the development of norms pertaining and geared to the respective region or nation, which at the same time are in accordance with the overarching 'hypernorms' established by the Global Compact principles.

Network activities

Through direct comparison of the network activities in Germany and the US it is possible to identify differences and potentials for synergy and collaboration.

1. Situation in Germany

The German UNGC network currently consists of 62 members, half of which are actively participating in network activities. Among those participating, about 16 are listed among the DAX 30. Companies working together in the UNGC network are usually faced with varying challenges in terms of corporate responsibility varying from anti-corruption to human rights. The strength of the German network is its focus on development cooperation, which is mostly related to the network being run by the gtz, Germany's Agency for Development Cooperation.

Running the network poses a considerable administrative challenge, as the network is no legal association but is based on input and consensus from the individual member companies. The staff and office at the gtz house in Berlin, are currently covered by the German Ministry for Development Cooperation.

The activities in the context of the UNGC are usually initiated through the gtz contact point in Berlin and then discussed at the bi-annual general meetings. Only if a consensus can be found among the participating companies, activities will be pursued further. In the past years, the German network has developed a considerable momentum. It has hosted an international learning forum in 2002, translated the guidance on preparing the communication on progress

³ Williams O.F. [2004] The UN Global Compact: the challenge and the promise, *Business Ethics Quarterly*, 14, 4.



reports into German and co-hosted an international conference on public-private partnerships in the context of the Global Compact.

Companies participating in the network value the activities as useful in the context of their overall corporate responsibility strategy. The Global Compact is mostly considered as an overarching framework which is tied into and combined with the participation in other programs.

The UNGC network in Germany through its secretariat is actively seeking to collaborate with other related programs and campaigns. For example, the network closely collaborates with the national focal point for the OECD guidelines for multi-national companies, which is hosted by the NGO Germanwatch. At the same time, the UNGC as an initiative is in healthy competition with initiatives like Econsense⁴ or the German Network for Business Ethics⁵. It is complemented on the European level but further activities, such as CSR Europe⁶ or the newly introduced European Alliance for a Competitive and Sustainable Enterprise⁷.

From the perspective of many participating companies, the UNGC principles mirror already existing codes of conducts allowing these companies to sign on to the Compact at a low cost and to use the additional momentum provided by the Global Compact to further develop their CSR strategies.

Companies representatives praised the German UNGC network as a good place for networking. This is also augmented by its convener, the gtz, as it opens up new networking possibilities for companies through its partnership programs with developing countries. More concrete initiatives however are then developed in 'business only' working groups which take place around the official general meeting.

While the German network is still strong on performance, participants of the German network voice increasing concern about the large number of non-reporting companies in the Compact world-wide. Reducing the number of non-reporting companies is now seen as the main challenge for the Compact at the international level and also in the German context.

2. Situation in the US

The situation in the US is considerably different. Currently there are about 80 member companies, less than 15 are Fortune 500 companies. Network activities had been started a couple of years ago by a few stand-out companies who were interested in signing on to the Global Compact in addition to their other activities in the area of responsible corporate citizenship. Support also came from range of academic institutions, which participated in Global Compact activities as part of their academic program.

Over the past years, network activities have been rather haphazard and were lacking the momentum of the German or the Nordic network as examples. Only very recently efforts were undertaken to revitalize the US networks. More companies have joined the network in the first half of 2006; new network meetings have been planned, with the Silicon Valley area showing a particular strong activity.

4 Econsense: <http://www.econsense.de>.

5 German Network for Business Ethics: http://www.dnwe.de/2/en/01_en.htm.

6 CSR Europe: <http://www.csreurope.org>.

7 The alliance was introduced in March 2006 as an innovative partnership of the EU Commission and business.



The relatively hesitant behavior toward the Global Compact is in stark difference to the otherwise active discussion and debate on corporate responsibility throughout the US. At the same time this situation might also be very characteristic for the American debate on corporate responsibility. Its analysis could eventually help in understanding, why the Global Compact not (yet) been accepted as a viable element of this process.

Certainly, a decisive factor, which is much more relevant in the US than in Germany, is the fear of litigation on the grounds of signing on to long-term commitments embodied by the ten principles. The feat of litigation probably also relates to a more vigilant and aggressive NGO community in the US and to the litigious society in the US in general. Although the threat of litigation with regards to the Global Compact principles has been somewhat alleviated by a letter of the American Bar Association, still the issue is still paramount for many corporations. Changes in this respect might only occur gradually, as this requires for the concept of CSR to be fully integrated in business processes, as was noted by a company representative. The ten principles somehow inherently mandate a certain behavior or responsibility, which might pose a too high risk in the understanding of some businesses. Also, with the Global Compact mandating the adherence to a wide range of different principles, this might comprise several areas which are not of interest for individual companies.

An additional factor are certainly widespread reservations vis a vis 'everything UN', which go back to recent incidences of reported intransparent practices at the UN. While these were not directly related to the Global Compact itself, it shed an unfavorable light on any UN activity or initiative. In some cases it was mentioned that the Global Compact was not attractive for CEO as there was no direct personal link to the UN Secretary General, which could have lead to more commitment for the Global Compact. Also, other initiatives like the Global Sullivan Principles or the Clinton Global Initiative were more promising in terms of exclusivity and probably also networking potential as well as reputation impact. On a broader scale, the UN might be less interesting for US companies as a convening body, as they have not been interested in engaging global issues and thus contributing to the UN's mission in the past.

This as other factors might be more inherent to the way US companies tick in general rather than the Global Compact in particular. US companies are considered to be very conservative and thus often tend to fall into a wait and see mode rather than being proactive. In other cases the hesitant behavior of US companies with regards to the Global Compact is related to the strong role and history of philanthropy in the US, which according to critics is colliding with more comprehensive CSR approaches or serves as a way to divert from more integrative issues. However, this is only part of the picture. While discussions about the exact definition of CSR is still continuing, philanthropy more and more is considered as one form of CSR, where efforts should not stop but which has its own legitimacy.

At the same time US companies might just be more focused on their own initiative rather than relying of becoming part of a concerted effort and becoming part of a broader initiative. Leadership and exclusivity are key and business fora, such as Business for Social Responsibility and the World Business Council for Sustainable Development are mostly considered as networking places rather than as loci for collective action. The most recent addition to the wide range of initiative engaging corporations in seeking change in terms of their environmental and



social performance is the SEE Change campaign of the DC based Business Roundtable, an initiative bringing together top-level executives, which will provide the opportunity to showcase progress made towards the attainment these goals.

As a matter of fact, and all corporate scandals and irresponsible behavior notwithstanding, US companies have made an effort to improve their environmental and social performance over the past years, and currently the momentum is probably even increasing according to observers of the scene. The recent announcement of Wal-Mart to make their operations more energy –efficient and cut down on greenhouse gas emission is probably only one of hopefully many promising examples. At the same time, this example also shows the complexity of the issue, as Wal-Mart is still facing major criticism for controversial labor practices. Other big American corporations are slowly going down the same path as well. A much cited example here is GE's ecomagination campaign.

Along these lines, companies have also been engaging with a wide range of stakeholders groups over the past years. Collaboration and joint activities take place in different constellations and with varying involvement of companies, as is demonstrated by the approach taken by the US branch of the WWF US, the Rainforest Alliance or Conservation International and its Center for Environmental Leadership. Partnerships with NGOs are probably most developed in the environmental field, which is due to the fact that environmental initiatives spurred the wider CSR movement. For many companies, these direct partnerships with NGO are key part of their corporate responsibility strategies in order to ensure accountability and visibility. In many cases, there was no perceived need for additional fora for exchange and collaboration. The business case for these partnerships is currently more established than the added value of the Global Compact.

In many cases companies have developed their own code of conduct, which they abide by and which they then compare to the principles of the Global Compact. The statement made in this context is often that the Global Compact cannot offer any addition to the code of conduct already established by the company. Even more so, joining such a 'rather general network' as the Global Compact poses the threat of 'blue (or green) washing' accusations.

An interesting trend currently gaining momentum in the US is the new mode of interaction with shareholders. The pressure on company executives from shareholders and analysts is clearly paramount and might have prevented responsible and sustainable innovations in the past. At the same time however, the US is currently the country with the most elaborate socially responsible investment activity, with socially responsible investors representing one ninth of all investment dollars in the US. According to the 2005 Report on Socially Responsible Investing Trends in the US⁸, assets in socially screened mutual funds rose to \$179 billion in 2005, socially screened separate accounts managed for individual and institutional clients amounted to a total of \$ 1.5 trillion. The report also observes an increasing activity in shareholder advocacy to raise issues of concern, with shareholder resolutions having risen by more than 16 percent over the past ten years. In continuation of past trends the role of socially responsible investment is expected to

⁸ Social Investment Forum [2006] 2005 Report on Socially Responsible Investment Trends in the United States, 10 Year Review, Social Investment Forum Foundation.



increase within the next couple of years, with major mainstream investors turning more and more to sustainable investment practices.

Of crucial importance, not only for socially responsible investing strategies, but also for compliance monitoring are reporting activities undertaken by the individual companies. Some US companies subscribing to the Global Reporting Initiative guidelines, others are working closely together with CERES. Still, those companies active in this respect are mostly bigger firms with a multi-national orientation. Smaller firms, and here the situation is similar to the one in Germany, often struggle with the reporting requirements and are rather reluctant to engage in such activities. The communication on progress required by the Global Compact is yet an additional reporting requirement, which makes it even more difficult for companies to comply.

Another important factor in this respect, but also determining the way US companies address particularly the governance aspect of corporate responsibility, is recent legislation introduced by the Sarbanes Oxley Act, the corporate accountability statute introduced in the wake of Enron, Anderson and WorldCom scandals in 2002. The Act actually requires far-reaching changes in the way companies are held accountable to their shareholders and is currently keeping companies busy ensuring compliance with the regulations. While the full impact of the legislation is currently unfolding, many resources are already absorbed by meeting the requirements. Thus the corporate governance debate is high on the agenda in the US. However, companies do not see a direct connection between these highly technical issues and the Global Compact, and rather perceive it as an additional rather general initiative, with no relevance for their struggle to comply with Sarbanes Oxley.

Challenges and the way ahead

When taking a national perspective, challenges exist for both networks. These are obvious in the US. The Global Compact and its supporters - and this includes those companies who have already signed up - need to increase the accountability of the Compact in order to make it stronger and more inclusive and attractive for a wide range of US companies. At the same time it is crucial to avoid the phenomenon several scholars refer to as adverse selection, i.e. the Global Compact being used by companies with a bad performance to merely improve their image. However, this seems not be the main risk at the time. Rather it will be crucial to render network activities, which demonstrate an added value to companies in terms of networking opportunities at the management level, which are not existent under the current model. Feedback received from German participants points to this as one of the most attractive assets of the Global Compact. This combined with the enormous convening power of the United Nations should be brought to more leverage, now that the UNGC secretariat is working on attaining a critical mass of participating companies in the US. The success of these efforts will to a certain extent be contingent on the opportunities provided for companies to champion the attainment of the Global Compact principles in their respective field and thus create value for themselves through participation in the joint initiative.

In Germany, with the network currently being more active, still challenges lie ahead. The network will have to address the problem of non-communicating companies, not only to fulfill the requirements of the Global Compact, but also to stabilize the network itself. Furthermore, the question of financing the network activities is looming at the horizon. While considerable support was provided by the Ministry for Economic Cooperation and Development over the past years,



this cannot be a permanent solution. Participants will have to dedicate funds to the continuation of the network activities in the near future. This will not only constitute a litmus test for the UNGC in Germany, but also demonstrate very clearly that for the UNGC and its networks to function a mutual relationship needs to be established, where companies not only reap benefits from participating in the UNGC, but also openly relate good performance in the area of corporate responsibility to their participation in the UNGC.

The US and Germany represent two interesting cases, not only with regard to the acceptance of the Global Compact in two important economies, but also with regards to the understanding of the concept of corporate responsibility in general. At a time, where national contexts become less and less important as many businesses act at a multi-or transnational scale, these differences might also diminish. Still, the country of origin has a considerable impact on how these issues are addressed.

This leads back to the initial question of the potential for increased transatlantic co-operation on corporate responsibility in the context of the Global Compact. Representatives from companies participating in the Global Compact expressed interest in increased collaboration of the two networks in addition to the network meetings offered through the Global Compact platform. Such exchange should however focus on the management rather than the strategic level in order to provide for hands-on learning experiences.

This position was voiced by US as well as German companies. From the perspective of American companies, the perceived benefits from such a strengthened collaboration include the opportunity of learning from the experiences of the German network in terms of network governance but also in terms of engaging in partnerships with government institutions and other stakeholders. A closer collaboration was perceived as an added-value, which would add attractiveness to the US Global Compact network.

German companies also saw the benefits of an increased collaboration as a way to develop closer relationships and creating better learning opportunities. At the same time, the main focus for German companies might be rather comprise partnerships with networks from other regions of interest, such as Romania, South Africa and Brasil.

Obviously, efforts in this respect would have to be supported by actors from both networks. One would expect that particularly those companies active in both countries would be the main driving force behind this. Still, an aspect not to be ignored is, as always, limited time for meetings and last but not least competition between US and German companies on the world market, which might prevent any closer collaboration.

The key to advancing network approaches in both countries and thus the benefits for all stakeholders involved is probably a mixed strategy. In the US, the network can gain considerable momentum from learning from already existing partnerships as well as initiatives. While it is probably not necessary or advisable (and probably) not possible to integrate all these initiatives, a clear strategy needs to be developed as to how the Global Compact positions itself in comparison to these. Also, it seems that it would be beneficial to not only get more companies to join, but also re-energize the buy-in of stakeholders. With more civil society groups supporting the Global Compact, its attractiveness is also likely to increase among companies.



Further interesting and decisive impulses for the Global Compact in both countries are to be expected from two areas, which will gain importance in the near future.

For once, the increasing activity of companies from emerging economies, such as China and India, on the world market is currently leading to a resurgence of the discussion on corporate responsibility in the US with a slightly different touch. There is a growing concern about the lagging reporting as well as performance standards of these companies with regards to corporate responsibility. In late 2005, the Global Compact has been launched in China with a high level conference. As a result, the role of the Global Compact in establishing a 'level playing field' for corporations across the world might therefore become more and more relevant thus prompting companies to become more involved (again), as they perceive this as an added benefit.

Furthermore, an increased visibility of the Global Compact is expected on the financial market, from the announcement of the Principles for Responsible Investment for pension funds, insurance companies and other institutional investors at Wall Street in late April 2006. The repercussions of this event in connection with the on-going activities in the area of responsible investment could be substantial considering the strong focus on shareholders, particularly in the US. Partnering with the currently highly dynamic UNEP Finance Initiative might also provide new impulses.

In addition, linking up the Global Compact even stronger with the Global Reporting Initiative might provide further leverage to both programs. While this might contribute to more visibility of the Global Compact in the US, this could be the key to addressing the challenge of increasing reporting rates in Germany.

The most promising development might lie within a further clarification of the Global Compact and its goals. This requires first clarity on the Global Compact as not an additional code of conduct but a complementary tool giving leverage and legitimacy and last but not least brand value to a company's efforts. The strategy followed by the Global Compact secretariat on establishing local networks with a distinct brand value, which would lead to a clear differentiation from other initiatives is a step in the right direction.

Further research

A number of new questions for research and policy-makers arise in the light of this brief analysis for the Global Compact, which will be worth addressing within the near future.

In terms of network development, this would include issues, such as the role of best practice developed in some advanced networks and how these could be transferred to other networks. This will also entail a closer look at how the Global Compact can actually make a sustainable difference at the management level. This is closely linked to the issue, which is most hotly discussed among the German network participants, on increasing the share of companies communicating on their annual progress in implementing the principles of the Global Compact. Only through insisting on rigorous reporting and transparency the Global Compact will be able to further establish its credibility among businesses as well as other stakeholder groups. Further research needs to be dedicated to the standards and guidelines to enable reporting for a wide range of companies.

In terms of facilitating the collaboration between the German and the US network it would be important to further evaluate the potential interest and possible avenues for increased collaboration on both sides. This would most probably also entail a more detailed analysis on the role of companies active in both countries and thus how the issue of corporate social



responsibility is handled in such transnational businesses. Considerable anecdotal evidence has been collected, which could be supported by more thorough organizational research.

For this analysis it would also be interesting to take a closer look at the sensitive issues, which are of interest for industry sectors from both countries and how these affect the acceptance of the Global Compact.

The brief assessment conducted in the context of this paper could also provide the foundation for a more detailed analysis of how German and US companies have addressed issues of global importance in the past and how this is likely to change in the future considering the entry of new global player from emerging economies as well as the mounting challenges for all multinational companies in the developing world under the auspices of the Millennium Development Goals.