

The United Nations Global Compact: The Founder's Perspective

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History and Introduction

We can't predict the future, but we can at least make choices about it. I want to talk about where we currently stand and how we can move ahead. I have always been a systems-minded guy, so I thrive on interconnections between different disciplines. I've never worked as a practical engineer, but I find it very helpful to make the connections, the horizontal connections, to see what's going on in one field. And how that can be relevant to another one. I have deep respect for the academic community as an idea generator and, of course, in preparing the next generation of leaders. That's the core challenge. I will address some of these issues. I will be

talking more from the perspective of decision-making but also try to make it personal. I do believe that the personal dimension and the integrity dimension at the personal and organizational levels have a lot in common, and we need to be clear on that.

I consider myself a lucky guy because I've always followed my instincts. When I saw opportunities, I jumped on them, as when Kofi Annan called me to his office and said we must do something with business, I jumped at that. Annan said business is not involved in the United Nations, so you're now my guy dealing with business. I had the privilege of doing speeches for him. One of the speeches hit the front pages of newspapers. It was called the Global Compact. The speech suggested to business leaders in an era of globalization (the late 90s) that while it's great for business to go global, it's important to be aware of very simple principles and how you behave. The trick we applied, which was very opportunistic, was to think through which U.N. conventions were most relevant to business. Where are the pressure points, and where can you make the biggest contribution?

We identified four areas. One was the area of human rights, an area most businesspeople still know little about. Businesspeople are either scared of lawyers or think they have done something wrong. Another area was labor rights, an area that has evolved very well. There are many, many conventions, 200 of them. They were codified in four simple, fundamental principles and rights at work, such as no child labor, no slavery, freedom of association, and environmental principles.

We cooked them up because we didn't have a solid international framework. We derived them from the Rio Declaration on Environment, the mother of all modern evolutions, where the United Nations Framework Convention on Climate Change (UNFCCC) was born. Four years later, once the U.N. finally had a convention against corruption, we added anticorruption, the 10th principle. This was in 2003. We made a constitutional reform within the compound, so we went out into the world, winning over business leaders to embrace the principles in writing, pledge to them, and commit to communicating on progress annually.

From the early days on, I got great support from the business ethics community here in the U.S., from Notre Dame to Austin to Santa Clara. There was a lot of great thinking on business ethics, but it had yet to go mainstream. Great collaboration started to emerge all over the world. The response was very positive because most business leaders in those days wanted to improve because it was a race to the top. Remember, it was a time of optimism in the world where we still believed that there was only one way forward, and that was deeper integration: ending poverty and overcoming poverty. The borders were breaking down, and liberal orders continued to expand. Whether in China, Argentina, South Africa, or Colombia, business leaders wanted to be part of the global value chain and improve their performance in these principles. They certainly understood that once it went public or listed you got a better valuation if you could prove you had some

principles in the organization. Against this background, a huge global movement started to emerge.

Currently, 80 country networks are up and running, many of them quite active. With the Ukraine country network, for example, my heart is bleeding. The Ukraine network employs 120 people. They're all safe currently. But I want to give you an idea of how the Global Compact seeds spread worldwide and how the global movement started.

I was also very lucky to have Kofi Annan's support. He was the greatest Secretary-General I have ever experienced. He supported the invitation to CEOs of pension funds in 2004. We invited them to form a working group called Who Cares Wins. The outcome was a report, and in that report, the term ESG was codified, and another global movement started in finance. That movement wouldn't go global mainstream until 2014 when, for the first time, correlations were established between long-term valuation and good performance on the one hand and good ESG factor management on the other. The correlation of causality is still being disputed. We'll come to that in a moment with the big issue of materiality versus morality.

The world kept on moving and embracing, including on the disclosure front. GRI made enormous leaps forward as well. We always worked with sister organizations, supporting each other. We stated that if a company uses GRI indicators, it qualifies, meets, or exceeds global compact disclosure requirements. We

helped each other along the way. GRI and the global compact represent a principle-based approach in the economy. The world of finance started to get interested, but then came the financial crisis. A big backlash came on concerns that in a crisis situation, these issues will go down the drain because people focus on the essentials of the country's survival. Out of the crisis, the principle-based approach was the way to regrow and rebuild trust. We got a huge boost out of the financial crisis in terms of embracing the principles worldwide, because the message was very clear. If you want to build solid organizations, you must have a solid foundation and principles recognized everywhere. In 2015, I retired. At that point, the Global Compact had 12,000 active corporate participants and 60 country networks.

My successor, currently Sanda Ojiambo from Kenya, a wonderful lady from Safaricom, is now trying to grow the initiative even further in Africa. We had a few networks there during my time with the Global Compact, six or seven, but they were almost always on life support. They never got the self-independent growth momentum going. I hope she will succeed now. This is the Global Compact.

As I mentioned with ESG, the investment side started to take off big time in 2012-2013. That's when the first Harvard and other studies came out from Asia and Europe, showing there's a correlation between good performance/good ethics and long-term returns. Wall Street embraced the long-term emphasis, as well as in London, Hong Kong, and everywhere around the

world. ESG was the next big thing. The integration of nontraditional financial issues in financial analysis and decision-making. A huge race started off. And then I retired, I joined a firm which uses ESG data and AI to come to grips with the big data models.

Long Term Predictions

I want to reflect on where I see this movement going forward and how much voluntary initiatives can contribute. I want to clarify that, in the end, business is always part of society. Business alone can never really do it. Real improvements can only happen when businesses, finances, regulators, and civil societies move in the same direction. It is a wrong assumption to believe that corporate sustainability doesn't work because look at ten years, 20 years of efforts, and the world is even messier than it was 50 years ago. You could argue the world would be much worse without these efforts, but you can argue that genuine societal improvements require everybody to play a role. Businesses and investors moving in one direction helps society prepare the groundwork. This helps policymakers adopt and change framework rulemaking to improve situations overall. It certainly has a massive positive impact, but alone it cannot be the solution.

Corporations alone cannot save us from climate change. We need all players in society, including consumers. When I look forward, I want to predict where these trends will go. We have to step back and ask ourselves, what are the fundamental forces that continue to shape the framework conditions within

which business and finance operate? I proposed to you there are four things. The first one, the most complex one, is political changes. And I'll come back to that in a moment, because that's outside the control of most of us. But the reality is power trumps markets. History has proven it. We are currently witnessing how history is proving this. Secondly, climate change is real, and it's getting worse. We will ultimately be forced by Mother Nature to take action. The question is, at what point and can we take action so the worst can be avoided? That risk continues enormously. The implication is very clear: Decarbonization and clean energy as fast as possible are safe, long-term future bets. It may not work out in the short run because coal is very profitable, but in the long run, it certainly will.

The third megatrend I propose to you, which has always been arguably the most important one, is technology. Technology is the mother of human progress. It has always been from the Industrial Revolution onwards. It's through technology that we can organize things differently. They can produce differently and behave differently. We will witness now the accelerated pace of digital technology, particularly in the onset of A.I. in almost everything. A key question here is the purpose of technological change and which direction we give to it. This is one of the most fundamental questions, and there are many, many ethical dilemmas involved.

The fourth megatrend is social norms and their changes. Ultimately, power is always people, how they behave, what their preferences are, and what they do;

power is with all of us. We all have the freedom to choose. We all have the opportunity to go this way or that way. Certain trends are playing out; some of them play out on a global scale. For example, people increasingly want more instant everything, quicker delivery, and the most direct connectivity.

There are also enormous fragmentations happening because, in different markets and societies, we can witness very different patterns of social norm changes. I would just advise you to keep your eyes and your mind on the long-term trends that shape the framework within which you will operate. And I suggest to you today there are three such megatrends that might be irreversible and will be ever more relevant: (1) climate change, or the natural environment in general; (2) technological change; and (3) social norms change. These are the most important framework-defining forces. From that, you can go back to what it means for strategy, decision-making, and investment decisions. And where does that time horizon come in? This is where we face a real dilemma in the world of finance because, on the one hand, more and more analysts do realize that climate risks are mature, relevant, and very serious. On the other hand, with a short-term mindset, you can still make a lot of money by burning the globe.

We have this time dimension on everything we do and consider. I urge you to think as long as possible because when you have a long-term perspective on issues, you can see the net present value and consider and value what you don't see when you're looking just to the minute or the second. These things which you can't see

in your short-term time frame, they may be the things that haunt you. It's not just the black swan concept and the systemic risks you're facing, it's the fundamental forces that can work against you. Be anti-fragile and apply long-term thinking. Even if the world is becoming ever more short-term, this is one fundamental lesson that I have.

Remarks on Ukraine

Now I want to cover a little bit about the current situation in Ukraine. Forgive me. Like many of you, I'm going through a traumatic reawakening because we are witnessing history unfold as I speak here. By the minute, by the second, we have to face the brutal reality that imperial mindsets and state power are still alive and kicking. We have to face the reality that state power, if unhinged and uncontrolled, is a huge, destructive, horrible, dark force.

It makes me tremble, but it makes me realize we live in a highly volatile world. For business it means a lot of dilemmas, a lot of challenges. This is not only in supply chain disruptions that are rocking the markets in energy, food, and raw materials all around the world but also in terms of strategic, forward-looking thinking. Should we now retreat even more and build everything back home. Or should we keep the ties going and hope and wish for settled peaceful arrangements? I remain a strong proponent for interdependence. The more we are connected, the less likely we will use the worst forces. It may not be enough to stop it, but it at least make it less likely that it puts a brake on it. I hope that

our world will not evolve into pure, self-centered national economies.

I hope this will not be so, and that's where businesses can now step up to reinforce their traditional role as ambassadors of peace. I want to remind you of what inspired me a lot. In 1919 after WWI, the International Chamber of Commerce was created. The slogan was for members to call themselves Ambassadors of Peace because they brought talks, employment, and hope rather than war and destruction. Being in business is basically a good force because you contribute to interdependence and show through your exchanges that you're open to other mindsets. We all pay a high price. If you go into protectionist mode now, everybody would be self-destructive and wouldn't help the world. The second and probably more compelling argument is that our world is already so interdependent that we cannot afford not to collaborate. Climate change cannot be solved by one country, by one company. It can only be solved if we all work together. If China doesn't play along, whatever Europe and the U.S. do, forget about it. China already accounts for 40% of emissions. We are doomed if China is not on board, so we have an incentive.

Take health for example. We saw it with COVID, how we mismanaged the global response and how the lack of collaboration hindered a speedier or greater response. How many lives were lost because of that? Global interdependence is a reality in a new era where the human impact on our natural environment is already so big. The feedback mechanisms are so

powerful now that, over time, we have no choice but to react. The incentive for collaboration hopefully will grow over time. And I hope to live through the day when heads of state and governments realize we have a new common enemy. It's climate change. You look into the mirror and discover it is in us. It has always been us. It's our behavior, it's our doing, and in the end, it's in all of us because we all have these choices on ethical terms.

Where to go? What to do? For what purpose? Then you can choose to believe that what connects us is more important than what divides us. Or do we want to rally on divisions and thrive on dividing and playing the nasty game? This is a choice we can make consciously. All of us can make it. I hope that we come back to making the right choices...