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Structuring the Global Marketplace

The Impact of the United Nations Global Compact

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During the past seven years, the United Nations Global Compact has become the largest voluntary corporate-citizenship initiative attempting to elevate and level the norms of corporate behavior in world markets. Its strategy of attracting volume of members versus commitment to performance of the Compact's 10 principles does not provide a base of innovators and early adopters necessary to gain respect from the vast majority of international companies. Thus, the Compact is unlikely to instill the norms embedded in its ten principles in the world market in any meaningful way to engender fairer and more efficient global markets.

Keywords: *UN Global Compact; United Nations; corporate citizenship; CSR; corporate social responsibility; fair markets; corporate norms*

The rush to internationalize factor and product or service markets through complex and far-reaching cross-national marketing systems has highlighted the inadequacy of global governance structures. Just as national markets need preconditions to deliver higher living standards and economic opportunity, so does the supranational market. These preconditions include legal, financial, communications, and transportation infrastructures, which not only allow efficiency but fairness of competitive, labor, environmental, safety, and sustainability practices (Harris and Carman 1983, 1984; Carman and Harris 1986; Klein and Nason 2001). Hunt's (1977) definition of macromarketing includes the study of marketing systems, and the setting of preconditions for the global marketing systems is a critical element.

In response to the world's inability to address adequately many preconditions that would level the market's playing field, Secretary-General Kofi Annan suggested the formation of the United Nations (UN) Global Compact on January 31, 1999, and implemented it on July 26, 2000. Basically, the Global Compact invited corporations, governments, civil-society advocates, and labor organizations to join a voluntary coalition to work "individually and collectively to achieve a new phase of globalization that creates inclusive and sustainable markets, ultimately resulting in widespread development and enhanced international cooperation" (UN Global Compact Office 2007a, 3). The participants agree to

incorporate, extend, and promote ten core principles in the areas of human rights, labor standards, environmental protection, and anticorruption.

The UN Global Compact is attempting to instill some of the necessary preconditions regarding labor markets, environmental sustainability, and open transparency through enlightened self-interest voluntarism rather than through multilateral treaties. The contention is that the ten principles help define the health of the international marketplace and the benefit that continued globalization can bring to both industrialized and emerging markets (UN Global Compact Office 2007a, 2007b).

The purpose of this comment is to examine the UN Global Compact to understand its impact on and its potential for addressing the dysfunctions of the current state of globalization relative to fair market allocation of resources in the service of societies and their development. The question is, has it or can it provide some of the preconditions necessary in the global factor and product and service marketplace? After a description of the Global Compact, arguments for and against it will be presented, evidence from three empirical studies will be reviewed, external drivers affecting success will be discussed, and an assessment of the current state and potential of the Compact will be made.

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Description

Mission. To “realize a more sustainable and inclusive global economy through responsible business practices” (UN Global Compact Office 2007a, 2).

Structure. Using the moral authority and convening power of the United Nations, the UN Global Compact Office was established to create a framework for business to commit to incorporating and enhancing practices that together help achieve the UN’s goals of a more sustainable and inclusive global economy. Beyond the focus on businesses with international connections, the Global Compact includes a network of stakeholders made up of six UN Agencies (Office of the United Nations High Commissioner for Human Rights, the United Nations Environmental Programme, the International Labour Organization, the United Nations Development Programme, the United Nations Industrial Development Organization, and the United Nations Office on Drugs and Crime), local and national governments, international labor organizations, international civil-society organizations, and academic institutions.

Governance. The Global Compact is managed through the Global Compact office at the United Nations with an executive director and staff. This office of twenty business, labor, and civil-society organization leaders is responsible to a board headed by the UN Secretary General. Furthermore, the Global Compact sponsors a Triennial Leaders Summit, local networks with annual forums, and interagency teams. Although the initiative of Secretary-General Kofi Annan was/is strongly endorsed by the General Assembly and the current secretary-general, Ban Ki-moon, little funding has been allocated by the UN for its operation (Deva 2006). Thus, in April 2006, the Foundation for the Global Compact was established as a nonprofit to support the work of the Global Compact. In the first year, fifty donors gave a total of \$500,000 to support networks and meetings, literature, Web site upgrades, research on communication on progress (COP), and the like. First-year donors included Alcan, Anglo American, Bayer, Coca-Cola, Cosmo Oil, De Beers, Engro Chemical Pakistan, Pakistan Refinery, Total, and Volvo. The foundation is prohibited from paying staff or influencing strategy or operations (Deva 2006).

Principles. Corporate practices are based on a commitment to embrace, support, and enact ten principles derived from the Universal Declaration of Human Rights, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations

Convention Against Corruption (UN Global Compact Office 2007b). These principles are that business should

- support and respect the protection of international human rights within their sphere of influence.
- ensure they are not complicit in human-rights abuses.
- uphold the freedom of association and the right to collective bargaining.
- seek the elimination of all forms of forced and compulsory labor.
- seek to end all child labor.
- seek to eliminate discrimination in respect to employment and occupation.
- support a precautionary approach to environmental challenges.
- undertake to promote greater environmental responsibility.
- encourage the development and diffusion of environmentally friendly technologies.
- work against corruption in all its forms, including extortion and bribery.

Requirements for membership. As a voluntary organization, the UN Global Compact requires interested corporate members to submit an initiating letter from their CEO (approved by the board if possible) to the UN Secretary-General expressing support for the Compact and its principles, intention to incorporate the Compact’s principles in strategy and day-to-day operations, public advocacy of the Compact and its principles, and yearly public COP to the Compact and stakeholders (UN Global Compact Office 2007a). Integrity measures (UN Global Compact Office 2007a, 2007c) have been instituted to prevent misuse of the Global Compact membership and its mission as follows: Companies that have produced a COP within two years of joining or one year from the last COP are considered *active*; failure to provide a COP within three years of joining or within two years of the last COP are considered *inactive*; and those that fall between these limits are considered *noncommunicating*. A new COP returns an inactive or noncommunicating company to active status. Finally, if a company does not submit a COP by the end of a third year from the last COP, the company will be delisted and must reapply to rejoin the Compact.

Participants must obtain prior permission to use the Compact logo to promote the Compact and its goals. Any other use is prohibited, including suggestions and implications that the “Global Compact Office has endorsed or approved the activities, products, and/or services of the organization, or that the Global Compact Office is the source of any such activities, products, and/or services” (UN Global Compact Office 2007d, 2). Thus, member organizations are not allowed to use the logo for any commercial purposes or for economic benefit.

A process has been established for members to lodge complaints against other members who are perceived to have engaged in serious violations of Compact rules or principles. The complaint is sent directly to the alleged violator with a copy to the Compact. The Compact will follow up to encourage timely responses.

Activities and services. To pursue the common goals of the international community and the business world of building markets, combating corruption, safeguarding the environment, and ensuring social inclusion, a number of initiatives have been undertaken (UN Global Compact Office 2007a).

“The Global Compact’s Local Networks remain the most important vehicle for increasing and intensifying the impact of the initiative” (UN Global Network Office 2007a, 19). There are more than eighty countries with emerging to advanced networks dedicated to drawing local stakeholders together to advance the mission of the Compact, provide training, and mobilize collective action and projects. Local networks must have a focal point for communications, provide an annual report of activities, and support members in filing COP reports and handling integrity issues.

During its seven years of existence, the Compact has developed extensive print- and Web-based materials to help participants learn about and incorporate its principles, interact with the Compact and one another, and expand their participation. Access to most of these resources as well as an extensive listing of news articles can be viewed on the Compact Web site, www.unglobalcompact.org.

The Compact has held two major high-level summits, in 2004 and 2007, and many regional and topical specialized workshops and meetings. Listed are twenty such meetings for 2006 and twelve in 2007 (through the July 5–6 Global Compact Leaders Summit). Calendars are available at www.unglobalcompact.org.

Justification

There are three major arguments offered to support the existence of the UN Global Compact—participants do well by doing good, formal global legal standards and enforcement are inadequate or nonexistent, and it can be part of a broader solution.

The first justification is stated by the UN Global Compact Office (2007b) as follows:

Responsible business practices not only contribute to the well-being of stakeholders, they have increasingly become a long-term value proposition for business itself.

It makes business sense for companies to invest in creating a sound environment in which to do business, to minimize risks, and to harness new business opportunities by supporting developing and emerging markets.

The Compact bolsters the case for enlightened, socially responsible self-interest (Kuper 2005). It offers business members the opportunity to dialogue and to collaborate on critical issues and projects in global and local area networks with other businesses, nongovernmental organizations (NGOs), labor, governments, and the UN. Furthermore, it gives businesses access to the UN’s knowledge and convening power. Finally, it increases business legitimacy, reputation, and employee morale and talent (UN Global Compact Office 2007b).

The second justification notes the vacuum in global standards and regulation. Because governments are unwilling to cede much sovereignty to supranational governance structures, coordinated volunteerism is seen as useful. The argument is that a lot can be done by the willing that encourages others to participate (Kuper 2005). Kuper (2005, 366) goes on to state that “since corporations will not sign on to ‘hard law’ initiatives, attempting to produce ‘soft law’ is surely better than being stuck with no law at all.”

The third justification hinges on the belief that the Compact is part of a mosaic of efforts that are compatible and mutually reinforcing, ranging from volunteerism to enforceable international law (Kell 2005). The Compact is viewed as part of “a creeping process of norm-creation” (Kuper 2005, 367).

Criticisms

From its very inception, the Global Compact has faced seven areas of intense criticism, especially but not exclusively from some in major international civil-society organizations.

Dilution of the UN. Resolution 60/125 specifies the intergovernmental foundation of the UN, which could be undermined by the growing influence of nonstate actors (Deva 2006; Kuper 2005). Furthermore, some feel that inclusion of the private sector depreciates the reputation of the UN (Mittler 2007; Martens 2007). It is expected that corporations will gain influence on public policy and become insiders within the UN over time (Utting 2007; Martens 2007; Paul 2004). Some critics worry that if the Global Compact grows, it may preclude more effective regulation (Utting 2007). Martens (2007) argues that the proliferation of partnerships may fragment and isolate solutions, weakening the UN. Deva (2006) notes that even

though the Compact claims it is not regulatory or a substitute for other voluntary efforts, it does attempt to do both through the international reputation of the UN, unanimous endorsement of UN member states, and provision of access through UN networks and convening power.

Vagueness. The ten principles are intended to be overarching and are necessarily vague, which allowed adoption by the UN General Assembly; however, they are not clearly defined, specific in intended implementation, or measurable in terms of compliance (Deva 2006; Mittler 2007; Utting 2007; Martens 2007). Noncorporate members get a seat at the table, but their role is not clear in terms of enforcement of corporate commitments (Deva 2006).

Weak. A central criticism of the Global Compact is that its membership is largely voluntary (Khan 2007; Deva 2006; Kuper 2005). Companies that violate human rights have been allowed to join and remain in the Global Compact (Khan 2007; Martens 2007). It lacks effective accountability (Strohscheidt 2007). Initially, few U.S. companies signed up, fearing lawsuits for noncompliance. After three years of negotiation with the American Bar Association, U.S. companies may join by signing a letter that shields them from such liability ("Corporate Social Responsibility" 2004). Summarizing concerns of some activists and academics, Utting (2007) suggests that companies will not voluntarily become accountable and therefore must be subject to mandatory disclosure, independent monitoring, a cost for infractions, and a process of redress for victims. Such voluntarism jeopardizes the provision of public goods by making their financing uncertain and subjecting their selection to the will of the participants, potentially absolving governments of appropriate responsibility (Martens 2007).

PR cover. Many civil-society organizations note that by allowing corporate membership without ensuring compliance with the ten principles, the Global Compact is in fact providing legitimacy, public-relations spin, and implied assurance for some of the worst corporate violators of the principles (Deva 2006; Mittler 2007; Utting 2007; Gaughran 2007; Martens 2007; Kuper 2005).

Incomplete. Action Aid International (Khan 2007, 2) points out that "the Global Compact makes no specific reference to economic, social, and cultural rights. The principles also neglect the responsibilities of companies with respect to development, gender discrimination, indigenous peoples, corporate transparency, and tax avoidance." Furthermore, "the Compact does not address

issues like fair pricing, fair advertising and selling practices, and providing appropriate information with product labeling. The Compact could be further developed with respect to issues faced by international marketers, and in particular, those pursuing globally integrated marketing programs" (Grein and Gould 2007, 297).

Selective compliance. Although Compact members agree to support all ten principles, in fact, they can select the parts on which to concentrate or areas that are low cost, safe, or already accomplished while ignoring other areas entirely (Utting 2007; Kuper 2005). Furthermore, companies are allowed to join that are in violation of other UN initiatives and guidelines (Martens 2007).

Drop in the bucket. Through the first seven years, the Global Compact has attracted more than three thousand business participants (UN Global Compact Office 2007a), yet this is less than 4 percent of the world's seventy-seven thousand multinationals (Khan 2007). Deva (2006) points out that in aggregate, corporations generally are unresponsive or not serious with regard to the Compact.

Three Studies of the UN Global Compact

In preparation for its Leaders Summit, June 2004, the UN Global Compact Office asked McKinsey & Company (2004) to undertake a comprehensive impact assessment of the Compact's first four years. The objective of the study was to determine the intermediate impacts of the Compact rather than catalog all actions or assess ultimate impact. The method used was to interview fifty-nine stakeholders, including supporters and critics; to conduct a Web survey of the 1,711 Compact participants, which yielded 370 unduplicated complete responses; and to analyze secondary Compact and public information. The survey found that the Compact had little or no impact on 94 percent of the respondents, only 4 percent said change would have been difficult without being a participant, and 2 percent reported change would not have happened without participation. The survey found that respondents reported joining the Compact to address humanitarian concerns (55 percent), to acquire practical know-how (50 percent), to network with other organizations (49 percent), and to become more familiar with corporate social responsibility (46 percent). McKinsey & Company (2004, 2, 20) concluded that "to realize its potential, the Global Compact will need to increase the value of participation with targeted business-oriented engagement mechanisms, robust local networks, and effective communication and collaboration to

meet the expectations of all participants and partners.” The report also warns that “inconsistent participation and divergent and unmet expectations limit the impact on companies and continue to threaten the Compact’s long-term credibility with participants.”

The 2004 Cetindamar and Husoy Study was designed to investigate why companies participated in the Compact and what effects it had on a firm’s environmentally responsible behavior. The Compact was asked for contact information on its approximately 1,400 participants (Spring 2004) and provided 200, of which 113 were concerned with environmental principles. The Likert scale questionnaire yielded twenty-nine usable responses. Cetindamar and Husoy (2007, 173) conclude that “being part of the sustainable development efforts is the most influential reason for all companies in becoming a GC participant,” and furthermore, that “becoming a GC participant . . . is to the benefit of firms not only in the long-run but also in the short-run.”

In preparing an annual review for the Compact’s 2007 Leaders Summit, a Wharton School/Compact study was conducted of all companies participating in the initiative as of February 2007. More than three thousand corporate members were invited to fill out an anonymous online Global Compact Implementation Survey, which resulted in about four hundred (15 percent) usable responses. This section is drawn from the *UN Global Compact Annual Review* (UN Global Compact Office 2007a). When queried about the reasons for joining, respondents noted joining to increase trust in company (63 percent), increase network opportunities (53 percent), address human concerns (52 percent), improve public relations (46 percent), become more familiar with corporate social responsibility (40 percent), acquire practical know-how (34 percent), establish links with the UN (34 percent), and improve market access (20 percent). Sixty-three percent of respondents indicated that their company was engaged in a Global Compact local network (except in North America, where just more than 40 percent were in networks), while 32 percent were not and 6 percent were unsure.

Limitations of All Three Studies

All three studies suffer from biases associated with the selection of respondents, because participants that were strongly engaged with or felt some benefit from the Global Compact were more likely to respond than passive participants. No study of nonrespondents was reported in any of the studies. Furthermore, all three studies relied on respondent perceptions with no attempt to verify actual impacts. Finally, two of the studies covered participants about four years after the Compact’s

inception (2004), and the Compact has since added a tenth principle and grown exponentially in participants.

Drivers of Impact

External to the UN Global Compact are a number of phenomena that potentially will drive its impact as well as spawn and encourage other national and multinational actions and rules. These drivers highlight the conflict between short-term goal maximization and long-term gain and sustainability of the economic and social systems of the world. Markets, their satisfaction, their supply chains, and their financing are at the very core of this debate. The purpose of this section is not to gaze into a crystal ball but to describe briefly some of the drivers that may define the future viability of the UN Global Compact.

Globalization. The worldwide debate on the benefits and costs of globalization has placed corporate behavior in the spotlight. Not only is it a focus of many civil-society organizations frustrated by current inequities and unfairness, but it has become a political issue in many countries both in the Organisation for Economic Co-operation and Development (OECD) and emerging markets. It is recognized that leveling the global playing field may be essential to continued international business in general and to specific businesses in particular. Coupled with the weakness of international governance, the Global Compact may take on more responsibility.

Financial markets. “From asset managers, pension trustees and stock exchanges to project leaders and insurers, the investment community increasingly connects environmental, social and governance—or ESG—performance to long-term viability and financial performance” (UN Global Compact Office 2007a, 12). Thus, increasing responsibility (Compact principles), performance, and sustainability are seen as linked (Kell 2005). For example, in April 2006, the Compact with the UN Environment Programme (UNEP) Finance Initiative invited large institutional investors and asset managers at the New York Stock Exchange to commit to six ESG principles in their investment analysis, decision making, and policies. By April 2007, 170 institutions (\$8 trillion in assets) had committed to this initiative—Principles for Responsible Investment (PRI). The more that financial investment decisions are made based on ESG or Compact principles, the greater the incentive for companies to accept these principles as part of their operations.

Environmental imperatives. Although global warming, resource depletion, and environmental despoliation have long been recognized as threats to sustainability of the world's ecosystem, Kyoto, the Intergovernmental Panel on Climate Change, Al Gore, and the Nobel Committee have led thousands of smaller efforts to scare corporate and world leaders into thinking seriously about the impact of their current operations on the environment. Given the weakness of intergovernmental agreements, including the recent agreements at the United Nations Climate Change Conference in Bali, voluntary action may play an increasingly important role along with or in place of more comprehensive state solutions.

Transparency and accountability. In the United States, the egregious cases of Enron, WorldCom, Adelphia, AOL Time-Warner, Arthur Andersen, Halliburton, Kmart, Tyco, Quest, and Xerox have focused attention on corporate governance. The response to the Sarbanes Oxley Act of 2002 have changed the rules in the United States, but the whole issue of transparency and accountability of institutions that create wealth and govern that process has been elevated worldwide to new levels. Much more is needed, and in combination with the financial-markets driver, voluntary individual and collective actions are likely to continue.

Assessment

Proponents and critics diverge sharply on the approach, achievements, and potential of the Compact. The purpose of this comment is to understand the Compact's effect on and potential for addressing the dysfunctions of the current state of globalization relative to fair-market allocation of resources in the service of societies and their development.

Has It Made a Significant Difference?

The vision that created the Compact required the UN to further collaborate with nongovernmental stakeholders, especially companies, a radical departure from its mandate and history of working through governments. The vision was no less audacious than to create a new culture and standard of corporate behavior in world markets through enlisting the willing as leaders in a process of corporate norm adoption. With more than three thousand corporate participants from 116 countries, the Compact is the largest corporate citizenship organization in the world. Included are 108 of the Financial Times Global 500 largest companies.

However, impressive numbers of members belie the reality that relative to the universe of companies that affect international markets, the number is miniscule. Furthermore, critics and supporters both note that the commitment of participants is weak and little real norm change has taken place. Many of the networks, projects, forums, and materials developed are useful in aiding the process of norm change, but the movement is still at a very early stage. Certainly, issues of corporate social responsibility have been given a new stage, champions within individual companies have been empowered to various degrees, and multistakeholder networks have been forged. Although a significant leveling the market playing field has not been achieved, an exciting start has been initiated.

It is clear at this point that most of the participants exist in name only. The initial thrust has been to get numbers rather than committed action, and thus, the bar has been set very low for entry. A number of critics note the big-name company members that continue to violate the principles to which their CEOs have committed. There is tension between the means of showing increasing membership and having the corporate social responsibility (CSR) innovators and early adopters be truly committed role models who will encourage both greater acceptance of behavior change and convince the more skeptical early majority to adopt the Compact principles. Opponents and proponents agree that the Compact is a work in progress and is tightening the participant requirements and the rules of reporting. It is not clear at this point if volume over quality has been a necessary strategy to get going or fatal to any real norm change. Based on the adoption of innovation literature (Rogers 2003), respect for innovators and early adopters is key to the eventual inclusion of the majority of the firms and the success of the voluntary movement. Kilgour (2007, 770) summarizes general skepticism:

If an issue as universal and pervasive as women's inequality is marginalized or ignored by the Global Compact and its signatory companies, its legitimacy and potential to affect positive change will be difficult to defend, and its claim to be a new and viable form of global governance will have been refuted.

Is It Likely to Make a Significant Difference?

The McKinsey & Company (2004, 15) report concludes that to transition from its "entrepreneurial phase, which has been marked by recruitment and experimentation, to a mature phase of sustained growth and impact, the

Compact will need to become more effective at delivering impact through its activities” (that is, value to participants via better networks, communication, governance, and formal support of UN partner agencies). This conclusion certainly makes sense in terms of volunteerism because participants must be willing to participate; however, it highlights the dilemma from a globalization perspective: the participants have to do things that may not be in their short-term interest to reach long-term objectives. Norms with standards have costs, and Deva (2006, 128) warns that “the business case hypothesis should be accepted with some caution.”

Here, the critics of the Compact see a history of case after case in which unregulated behavior has subjugated human rights, labor, the environment, and honesty in the name of profit. It is not surprising that the critics want the UN to “develop an effective regulatory and institutional framework for its relations to the private sector,” including principles of engagement, standards for interaction, impact assessment and independent evaluation, an ombudsman for complaints, and an intergovernmental UN body (Martens 2007, 6). Multistakeholder partnerships are seen as a failure of intergovernmental diplomacy (Martens 2007). Thus, the core question is not how to improve voluntary partnerships but how to create a framework of democratic multilateralism (Martens 2007). To bridge the gap between volunteerism and regulation, Kuper (2005, 370) suggests that

Critics of the Compact . . . should not lament the UN refusal to propose hard law solutions (proposals that would go nowhere given the current structure of power), nor should they reject the Compact outright because it does not include a strong monitoring mechanism. Rather they should continue to press for clear and measurable standards that could underpin hard law in the future but that provide leverage for civil society organizations in the present; *then* these critics and organizations should focus resources on monitoring and publicizing the performance of the few key corporations that have tipping power . . . well-known corporations are vulnerable to adverse publicity.

The real question relates to the power of the drivers of change. Are company boards, executives, and investors sufficiently concerned about threats of globalization backlash to their international operations, threats to their markets by global warming and environmental degradation, threats to access to capital by ESG screens, threats from the lack of transparency, and threats of increased regulation to step away from the short-run maximization models and embrace a change in norms through voluntary

actions that increasingly protect their sustainability and the leveling of the world for the benefit of all? If they are, then “the Compact may be the most effective means to gain consensus on the role of business in society” (Williams 2004, 755). If the Compact is to provide this platform of understanding and norms, many who have assessed it feel an order of magnitude change is needed. Typical of these statements are the following:

The Compact Office has to devise means and strategies to ensure that those corporations which join the initiative fulfill their social responsibilities both in letter and spirit. (Deva 2006, 150)

The United Nations Global Compact does have a role to play in promoting a greater understanding of links between business and human rights, but the shortcomings of the current model need to be urgently addressed before it can be viewed as a valuable contributor to this field. (Nolan 2005, 465–66)

Conclusion

During the past seven years, the UN Global Compact has become the largest voluntary corporate-citizenship initiative attempting to elevate and to level the norms of corporate behavior in world markets. Impressive as this start is, the Global Compact has significant shortcomings that threaten its future. Its strategy of having a low bar for admission to drive numbers of participants, along with weak, vague, and toothless requirements of performance, undercut the Compact’s future potential in two ways. First, actions by current participants have not seriously addressed the issues represented by the Compact’s ten principles beyond what they would have done without it. Second, participants do not represent the commitment and actions of innovators and early adopters necessary to gain respect from the vast majority of international companies, thereby driving the global adoption of the Compact norms. Unless the quality of participants is placed above quantity, the Compact will ultimately fail to instill the norms imbedded in its ten principles in the world market in any meaningful sense.

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