

GLOBAL COMPACT LEADERS SUMMIT

MINISTERIAL ROUND TABLE ON GOVERNMENT AND CSR

6 JULY 2007

(Concluding introductory comments by Swedish Minister for Foreign Trade, Sten Tolgfors. The full text of Mr Tolgfors speech can be found at: <http://www.sweden.gov.se/sb/d/8738/a/85462>)

...Responsible business practices are important in a globalisation of the economy that combines trade liberalisation with a reduction of in-poverty and inequality.

My conclusion is that governments need to support the voluntary work performed by companies and stand behind the work done in Global Compact and the OECD.

Dear Friends, at this time I would very much like to introduce to you Paul Hohnen. He will present a report to us called "soft power – hard evidence". In his view, if I understand him correctly, businesses are drivers and governments have a role as enablers of corporate responsibility. Paul is a former Australian Diplomat of the OECD and the EU. He is an expert on international standards in the field of sustainable development and CSR. Today Paul is based in Amsterdam and in addition to being a special advisor to Global Compact and GRI, he is also an Associate Fellow of the Royal Institute for International Affairs at Chatham Institute, in other words, in London.

Paul Hohnen Thank you very much, Chair.

Excellencies, ladies and gentlemen: As ministers and senior government officials, you will need little reminding of the fact that the business of government has become more difficult than ever. Rapid changes in technology, in communications, and in the competitive landscape are being complicated by the globalization backlash and by unprecedented challenges such as global warming.

The context of this presentation is to offer you some thoughts on how the business of government might be made easier and more effective. It is about the use of a little discussed - but significant - power of government called 'soft power'. 'Soft power', a term coined by Professor Joseph Nye, contains the notion that while traditional 'hard power' - military strength and legislation have their merits, the exercise of persuasion and leadership based on shared values (which he termed 'soft power') can often be more effective in some circumstances. In the realm of corporate citizenship, which by definition involves voluntary actions, the question I will address now is why - and how - 'soft power' might be brought into play.

As we meet today, three observations might be made about the current corporate citizenship debate.

The first is that there is a compelling case to better harness the full power of

business in combating the various historic challenges which humankind faces. Whether one thinks of climate change, the alleviation of poverty, or providing energy, food and water to 10 billion people this century, it is clear that the business sector must play a central role.

The second is that the concept of corporate citizenship is often poorly defined and understood. Around the world, businesses – and other organizations – sometimes have a hard time understanding what is expected of them by governments and the wider society. What does it mean, for example, to be ‘sustainable’? The flourishing of initiatives over the last decade – the UN Global Compact being perhaps the doyen of them all – have been driven by a need to provide practical guidance on what one’s ‘social responsibilities’ really are, and how these can be integrated into everyday life.

It is no coincidence that most corporate citizenship instruments have been developed with a large input and engagement from the business sector. It is not enough to agree international treaties: somewhere down the line, guidance is necessary on what these mean for organizations and individuals. In some respects, this gap is what corporate citizenship tries to address.

The third point is that there has been little attempt to analyze how government can be most effective. Amid all the talk of there being a ‘governance gap’ in responding to many global issues, the debate too often ends up in a sterile confrontation between ‘regulatory’ or ‘voluntary’ approaches. In this case, voluntary is frequently portrayed as meaning ‘laissez faire’ or ‘hands off’.

Far from being a ‘black/white’ situation, I will show that governments have a rich palette of voluntary ‘soft power’ options from which to paint a policy landscape that meets their specific circumstances, and to complement legislation.

Based on research commissioned by the UN Global Compact Office, and described in more detail in my discussion paper (‘Governmental ‘Soft Power’ Options: How governments can use the ‘soft power art of encouragement and persuasion to advance corporate engagement on social and environmental issues’), I have identified at least a dozen different ways that governments can influence the voluntary uptake by the business sector of internationally-agreed principles and norms, and in many case are successfully doing so!

Time does not permit more than a bullet-point summary of these options, and a few examples. By giving at least one example of activities undertaken by all the countries or regions represented here today, I hope to underline the point that promotion of enhanced corporate citizenship through ‘soft power’ approaches is not limited by size, stage of development or location. I apologize in advance for the inevitable omissions, but look forward to hearing more examples in your interventions.

The first form of ‘soft power’ is **to create an enabling environment**, where business and other sectors feel able to discuss corporate citizenship issues. At the government level, this might be done by creating specific bodies (such as Sweden’s ‘Global Responsibility’ initiative or Colombia’s National Council on Social Responsibility), or by otherwise encouraging public debate (such as

Australia's two public enquiries in 2006).

At a slightly more pro-active level, governments can also seek to **raise awareness** about corporate citizenship. Ghana did this by creating a special business code which, incidentally, draws on the Global Compact principles. Other countries, such as the UK, have published guidance on corporate citizenship that outlines government views the issue.

In come cases, governments may choose to **promote specific instruments or initiatives**. The UN Global Compact has enjoyed particular support in this context. Many African governments, such as Kenya, Namibia, Nigeria, Mozambique, and Zambia, have publicly endorsed the Compact at ministerial or ambassadorial level. The Vice Chair of China's National People's Congress has also publicly commended the Global Compact's principles to Chinese business.

A fourth option is **to build capacity to understand and use corporate citizenship tools**. Because corporate citizenship approaches offer unique opportunities to build partnerships between the business and civil society sectors, they can play a vital role in advancing learning and understanding. Against this background, one can see the development of free web-based tools by Denmark and the Netherlands as important developments. Work in Mexico to develop a public performance model for use of the Global Compact principles can also be seen in this context.

At a still more active level, governments have a **key role to play as conveners**. Conferences which bring together the different social actors on specific issues can be highly productive in the search for solutions to shared problems. Many of the countries in this room have played convening roles in the launch of Global Compact Local Networks, or on other corporate citizenship issues. The host country for this meeting, Switzerland, has a long history of supporting major international corporate citizenship-related meetings, as has Norway, which earlier this year convened a major conference on sustainable development.

Corporate citizenship issues inevitable involve differences of opinion. Governments can choose to let these play out, or **play a broker or mediator role**, with the aim of both learning more about the views involved, or to maximize chances of a settlement consistent with government policy. While the mediation role is not one that all governments would wish to rush into, the Netherlands has come up with a creative approach. It has effectively out-sourced the mediation role of its OECD Guidelines National Contact Point to a multi-stakeholder tripartite body!

A seventh option involves **the potential of government to educate and expand the level of knowledge through research**. Much research on corporate citizenship is little known, or not well linked to other research. In many areas, there are research gaps. Who is using what corporate citizenship instruments, and with what impact? What approaches seem to be most effective? How can this knowledge help advance government policies? What are the best practices? Canada is among a number of countries that have commissioned a range of corporate citizenship-related research. Research commissioned by the Dutch government on the business case for corporate citizenship will doubtless be read

by many when it is published.

The **government funding role** has proven to be crucial to many corporate citizenship initiatives. As voluntary initiatives, these have been built on the support of a limited number of donors. Because many have been designed to be freely available for the public good, there is a tendency to assume that there is no need for financial support. Because ‘everyone’ owns them, no one takes ownership. Maintaining and scaling up the most promising initiatives does, however, require funding. Many of the countries here have provided direct support to the Global Compact Trust Fund, or have supported the launch of Local Networks.

A number of governments have actively sought to **promote ‘public/private partnerships’ (PPPs)**. Such PPPs, typically involving the business sector, with either civil society or government partners (or both) are used for a range of corporate citizenship promotional purposes, including advancing trade and development, or to better define specific issues. Both the German and Italian governments have developed interesting examples. Perhaps the best example, however, is that of Singapore, whose ‘Singapore Compact’ brings government, business and labour together in a national tripartite forum to advance corporate citizenship.

There are various other ways in which governments can use their ‘soft power’ to promote corporate citizenship in ways that are consistent with their circumstances. Other examples mentioned in my paper include helping **develop new tools** (such as the Principles for Responsible Investment and the Extractive Industries Transparency Initiative); ensuring legislative consistency with international social and environmental principles at the heart of corporate citizenship (such as the Global Compact principles); and adoption by public authorities of internationally-recognized principles or initiatives (where the Mexican Public Performance Model is a relevant example).

These, then are some of the ways that governments can use their powers of attraction and persuasion, rather than coercion, to stimulate greater understanding and respect for social and environmental principles. But let’s review quickly why government might want to do this.

First, because ‘soft power’ makes a virtue of flexibility. Legislation is not always easily passed, or enforced. Being in the realm of administrative action, ‘soft power’ can be more creative and adaptive to specific needs.

Second, the great moral strength of ‘soft power’ is that it is based on existing international norms and instruments. No new policies or supporting arguments are required.

Third, the advancement of corporate citizenship can be used to enhance policy integration at the national level. As has been noted, the challenges of sustainable development will require a high level of coherence between energy, labour, economic, social and environmental policies, to name a few! A vibrant engagement by all social partners can help with this process.

In a related manner, an engaged and responsible business sector can help contribute to the building of an improved social framework through enhanced trade, development, economic growth, and appropriate technology.

There are, of course, caveats. There is no substitute for good regulation, and voluntary approaches must be seen as a supplement and complement to legislation. The ‘soft power’ options I have identified can be used individually or in together. The list is not comprehensive. Doubtless other forms also exist and will emerge in the future. Finally, government is not alone in wielding ‘soft power’. Businesses and civil society organizations also exercise ‘soft power’ and governments would be well advised to be ready to help harness and direct this power as well. In using corporate citizenship instruments, businesses are discovering the reputational and other advantages of enhanced voluntary responsibility.

In his best-selling book on globalization, ‘The World is Flat’, Thomas L. Friedman remarks that ‘in the flat world ... the balance of power between global companies and the individual communities in which they operate is tilting more and more in favor of the companies.’ He goes on to say that ‘as such, companies are going to command more power, not only to create value but also to transmit values, than any transnational institutions on the planet.’

This summarizes both the challenge and opportunity of ‘soft power’. Governments can’t- and probably shouldn’t try to - solve all the problems that humankind faces. This is a collective task for all of society. In this, business can play a powerful role.

The central task for government is to set the framework – including the principles to be applied universally – and find the most effective ways of fostering their uptake and respect, thereby fully harnessing the power of business and civil society organizations.

By injecting the shared DNA of the universal norms and principles on social and environmental issues into normal business practices through the corporate citizenship debate, governments may discover that their ‘soft power’ leadership has as much muscle to effect positive change as traditional ‘hard’ power options.

I look forward to your questions and hearing of your own experiences in exercising ‘soft power’. Thank you.