

## 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.

#### A Discussion Paper

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This paper has been developed to facilitate discussion at the 2007 Leaders Summit on the current and potential role of government in promoting wider uptake of the Global Compact and related corporate responsibility initiatives. It specifically invites government representatives to share examples of actions that have been taken to stimulate use of the Global Compact, and to exchange ideas on avenues for future work. It also invites business leaders to offer feedback on the ways in which government can best help the private sector to widen and deepen its engagement in activities to address pressing social, environmental and anti-corruption issues. The paper provides a list of ways in which governments can - and often do - exercise 'soft power' to enhance voluntary actions by the business sector.

## What is 'Soft Power'?

1. The term 'soft power' was first coined by Harvard's Professor Joseph Nye. He used it to describe the way in which government can better achieve some policy goals through moral and thought leadership and attraction, rather than through use of force or regulation. Far from being a weakness, as the term might suggest, Nye contended that 'soft power' could often be more cost-effective in achieving national objectives than more traditional forms of power. <sup>1</sup>

2. This paper proceeds from the proposition that Nye's identification of 'soft power' can also be a valuable lens through which to view government activities in relation to corporate responsibility. The underlying rationale is that:

- Like 'soft power', corporate responsibility engages universal principles and concerns, and seeks to advance these through voluntary - rather than mandated - actions.
- Given the huge potential of the business sector to help address growing economic development, environmental and social challenges, it is in the public interest that this power be harnessed as fast, fully and flexibly as possible.
- It is in the interests of government that voluntary actions by the business sector complement and reinforce existing regulatory and policy measures as far as possible.

3. While not seeking to enter into the wider debate about the meaning and application of 'corporate responsibility', <sup>2</sup> the paper recognises that:

- there is currently widespread recognition of the fact that the business sector is involved in a range of non-mandated activities to improve social and environmental conditions; and that
- the positive impacts of this engagement would be dramatically amplified if more enterprises (as well as public agencies and civil society organisations) became engaged in such voluntary activities.

4. In the context of the 2007 Leaders Summit focus on 'Facing Realities: Getting Down to Business', the paper uses the term 'enhanced corporate responsibility' to describe the objective of encouraging a wider, deeper and accelerated uptake and use of the Global Compact's ten principles and other actions to increase the positive

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<sup>1</sup> 'Soft Power - The Means to Success in World Politics', Joseph S. Nye, Jr., 2004.

<sup>2</sup> At the 2002 World Summit on Sustainable Development, governments recognised the importance of enhancing 'corporate environmental and social responsibility and accountability', noting that this 'would include actions at all levels to: (a) Encourage industry to improve social and environmental performance through voluntary initiatives, including environmental management systems, codes of conduct, certification and public reporting on environmental and social issues, taking into account such initiatives as the International Organization for Standardization (ISO) standards and Global Reporting Initiative guidelines on sustainability reporting, bearing in mind principle 11 of the Rio Declaration on Environment and Development.'

contribution of the business sector to addressing the world's most pressing social and environmental problems.

### **Soft Power Options**

5. It is tempting, but incorrect, to characterise the role of government in the area of corporate responsibility as either to regulate, or to adopt a 'hands-off' position. Indeed, there are at least a dozen ways where government can - and often does - play a decisive role in encouraging enhanced corporate responsibility, without changing its essentially voluntary character.

6. This paper identifies these options and argues that they present concrete examples of how government is exercising 'soft power' in diverse and creative ways. It also seeks to show how such 'soft power' approaches can be complementary with both a voluntary approach, and with government efforts to harness all levels of society in the pursuit of sustainable development.

#### **I. Creating an enabling environment**

7. As a strictly voluntary activity on the part of the business sector, corporate responsibility requires no direct engagement by government. However, without changing the voluntary nature of such activities, government can nonetheless play a key role in both widening and deepening the level of interest by the private sector in corporate responsibility approaches.

8. By providing a supportive enabling environment, governments can help create conditions where business feels inspired and able to experiment with 'beyond compliance' activities that increase both its competitiveness and contribution to social and environmental conditions.

9. Ways of doing this include: developing and articulating a national corporate responsibility policy and goals; giving responsibility to specific government ministries for monitoring corporate responsibility activities at the national or international levels; and offering advice or assistance in developing corporate responsibility approaches. Recognising the growing importance of harnessing the power of the business sector, including through voluntary mechanisms, some countries have made corporate responsibility a ministerial responsibility.

#### **II. Raising awareness**

10. A step further, governments can actively draw public attention to the importance of the business sector to improved social and environmental issues, including through the expanded use of corporate responsibility approaches.

11. Examples of actions that have been taken by government include: making high-level speeches on corporate responsibility; developing and disseminating guidance and related publications on how to understand and utilise corporate responsibility to

improve business; profiling examples of best practice; and creating a public website with relevant materials. In this context, a number of countries have also produced corporate responsibility guidance materials that are freely available.

### **III. Promotion**

12. More pro-active still, governments sometimes endorse or invite support for specific corporate responsibility initiatives. In this context, evidence suggests that governments prefer to profile initiatives such as the UN Global Compact that have been developed directly by governments or intergovernmental bodies, and whose core principles are derived from recognised international instruments (such as the Universal Declaration of Human Rights, the ILO Core Conventions, and the like).

13. Other kindred initiatives that are commonly referenced include the OECD Guidelines for Multinational Enterprises (by its adherents), and the International Labour Organization (ILO) Tripartite Declaration. In some cases, initiatives developed through multi-stakeholder processes, such as the Global Reporting Initiative (GRI), are also mentioned.

14. As the world's largest and most widely recognised corporate responsibility initiative, the UN Global Compact has enjoyed particularly high-level recognition from a range of governments and intergovernmental organisations. In addition to being formally referenced by the UN General Assembly and the 2005 World Summit, a range of heads of state and government, ministers and ambassadors from all quarters of the globe have specifically endorsed the Global Compact. An illustrative list of such statements is attached in Annex A.

15. Recognition and reward for superior performance are also important to the promotion role. Some countries do this by linking export credit or government procurement and investment contracts to use of specific corporate responsibility instruments, including the Global Compact.

### **IV. Capacity Building**

16. In view of the relatively new and voluntary nature of corporate responsibility, there is sometimes uncertainty about its costs and benefits, the available instruments, and on how to use them. In this context, government support for building the capacity of the business, civil society and public authority sectors to understand and engage in corporate responsibility initiatives can be highly effective.

17. In an effort to create a more informed and responsive society, some governments are directly or indirectly supporting education and training in relation to corporate responsibility. This can be done in a range of ways, including through support for special programmes in existing national educational institutions, or for the

creation of special purpose institutes that hold meetings and conduct research. The establishment of Global Compact Local Networks is a case in point.<sup>3</sup>

## **V. Convening**

18. As an extension of capacity-building, government can also play an important catalytic role in enhancing corporate responsibility by hosting events and building platforms that bring together key actors from the business and civil society sectors. Research indicates that in recent years many governments have taken the initiative of convening meetings on corporate responsibility. These have included national and international level meetings, on themes such as the role of business in human rights, development, corruption, and sustainable development.

19. The UN Global Compact has been the subject of many of these events, where governments have demonstrated their high-level support at the launch of Global Compact Networks in individual countries or regions.

## **VI. Mediation**

20. Human rights, labour and environmental issues often involve complex differences of perspective, where history, culture and stage of development play important roles. Here, governments can build on the more passive convening role and play an active mediation role, seeking to promote common ground and agreed approaches and understanding between business and civil society stakeholders.

21. In some cases, this can be a formal mediation role. The adherents of the OECD MNE Guidelines, for example, engage to do this in the case of 'specific instances'. Commonly, however, this can be done informally and in a low-key way. In this respect, initiatives such as the UN Global Compact are well placed to play a supportive role to government mediation. They do this by providing a safe framework in which different stakeholder groups can meet and explore their respective viewpoints.

## **VII. Research**

22. While much is known about the potential and importance of corporate responsibility, much remains unknown, or is not well communicated. In this regard, government can play a vital role by helping to profile the 'knowns' and helping identify and investigate the 'unknowns'.

23. The government roles already mentioned can go a long way to promoting a better understanding of what is expected of business, and how voluntary approaches can be used to advance both business and social benefits. Recognising the importance of research, a number of governments have either commissioned specific research (e.g.

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<sup>3</sup> There are currently forty Global Compact Local Networks established around the world. See: <http://www.unglobalcompact.org/NetworksAroundTheWorld/index.html>

on the 'business case' for corporate responsibility), or help support relevant research organisations.

24. There is, however, some evidence to suggest that further research could be valuable. Potential subjects include: cultural and other differences in business attitudes towards enhanced corporate responsibility, and how these can be better addressed; how to reach small and medium sized enterprises (SMEs); and how the contribution of public authority and civil society organisations can be engaged. In some cases, the solution may involve better dissemination of existing research.

## **VIII. Funding**

25. All corporate responsibility initiatives in the market place require a level of funding to sustain their operations. This applies both to the developers of instruments as well as to their users. By their nature, corporate responsibility initiatives rely heavily on communication, both within and between stakeholder groups.

26. Here, too, governments can play an invaluable role. While the 'soft power' concept should probably exclude the provision of any direct financial support to the business sector as an encouragement to enhanced corporate responsibility, a number of governments appear to accept that indirect financial support can be consistent with a 'soft power' approach. Government practices currently include not only crucial budget support for initiatives such as the Global Compact, but also funding support for meetings, publications, stakeholder travel, and the creation of local forums or networks.

## **IX. Partnerships**

27. Most of the examples of 'soft power' mentioned above involve governments taking an 'arm's length' posture. They actively support enhanced corporate responsibility, but do not necessarily become involved themselves. There are, however, options for more direct engagement.

28. These include the formation of public private partnerships (PPPs). These PPPs involve government playing a leading role in developing, with the business community and possibly other sectors, a partnership focused on making progress using a voluntary approach to a specific theme or sector. Examples of PPPs include standing 'roundtables' that have been convened on specific commodities (e.g. coffee), issues (e.g. development, fair trade, labour rights, anti-corruption) and initiatives (e.g. the UN Global Compact). Importantly, many PPPs seek to involve both industrialised and industrialising countries, and are aimed at addressing development issues. Governments not only participate in such initiatives, but provide supporting materials and funding.

29. Sometimes governments can also engage in specific corporate responsibility initiatives. In the case of the Global Compact, they do so both indirectly (i.e. through the United Nations framework), or directly (e.g. in helping establish Local Networks and participating regularly in meetings).

## **X. Instruments Development**

30. The emergence of the large number of corporate responsibility initiatives in recent years has been sign of the widespread recognition of the importance of effectively engaging the business sector on social and environmental issues. In many cases, these diverse initiatives - whether in the form of business codes, standards, charters and guidelines - have been primarily developed by, or with, the business community.

31. Government, however, faces multiple dilemmas in this context. On the one hand, it is in the public interest that all social partners are actively engaged in identifying and responding to shared social and environmental challenges. In this way, they can help government achieve agreed policy objectives (e.g. the Millennium Development Goals, the ILO Conventions, and the UN Climate Change Convention). On the other hand, it is also in the public interest that private initiatives do not ignore, undermine or distort existing internationally-agreed principles and instruments.

32. A preferred outcome would be one where private initiatives complement and build on existing regulations and international agreements. In this way, voluntary initiatives have the potential to play a powerful role in raising awareness of, and respect for, universal principles and agreements.

33. These are among the reasons why many governments have played a 'midwife' role in helping create specific corporate responsibility instruments. Examples of direct government engagement in the development of instruments include the creation of the Extractive Industries Transparency Initiative (EITI), the Voluntary Principles on Security and Human Rights, and the OECD MNE Guidelines. Government is also directly involved in the current development of an ISO 'Social Responsibility' Standard. Less directly but no less importantly, government has also played a key role in the establishment and development of and the UN Global Compact (and its Local Networks).

## **XI. Legislative Consistency**

34. As noted above, governments can align a range of policy instruments with preferred corporate responsibility instruments. In this way, policies (such as export credit or procurement mechanisms) can be used to promote wider uptake of specific principles or instruments. In like manner, however, governments can also screen all new legislation and policies for consistency with these principles.

35. Proposed legislation on employment, trade, energy and development, and on corporations generally, would appear to provide opportunities to ensure that regulations were consistent with principles endorsed elsewhere. In this regard, initiatives such as the UN Global Compact, with its ten principles, offer a potentially convenient 'check-list' against which new regulations can be assessed.

## **XII. Adoption**

36. Although corporate responsibility initiatives, by definition, are addressed primarily to the business sector, there is recognition that the underlying principles are also applicable to the public agency and civil society sectors. In this context, a government's 'soft power' - as reflected in its moral leadership and actions - can be amplified when it also applies the relevant principles and instruments to public agencies.

37. While many corporate responsibility instruments are not directly applicable to public agencies, a number of governments are exploring the scope for governmental use of such instruments by public bodies, public corporations, and corporations in which the government has a significant financial interest. In this connection, the Global Compact receives formal reference by a number of authorities.

## **Conclusion**

38. Needless to say, the list of 'soft power' options offered above is not necessarily complete. By its nature, 'soft power' offers great flexibility on how government can best leverage its position and goals. The options identified, moreover, will not always be clear-cut. A 'convening' role will often involve the 'profiling' and 'funding' roles. The main objective is to stimulate discussion of the 'menu' of options open for government to consider.

39. Finally, it might be added that 'soft power' is not simply the preserve of government. As Nye and others have observed, all organisations have the potential to exercise leadership and exercise suasion, reflecting the respect and attention they have won, and the inherent appeal of their values. In this regard, it may well prove the case that a company's corporate responsibility profile - its engagements, achievements and activities - could form an important part of its own potential to exercise 'soft power'.

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## Annex A

### High Level Speeches

Government ministers and officials frequently deliver speeches on specific corporate responsibility instruments and initiatives. The Global Compact has been widely referenced in this context. The following is a non-exhaustive list of examples.

Argentina: Speaking at the formal launch of the Global Compact in Argentina on 23 April 2004, Carlos Tomada, the Minister of Labour, described the Global Compact as 'the base for any consensus with the private sector', and a 'starting point' for its future work.

Bosnia-Herzegovina: The launch of the Global Compact Local Network in September 2005 was, in the words of Prime Minister Adnan Terzic, 'an important moment in Bosnia and Herzegovina's path towards universally accepted principles of human rights, ecologically sustainable development and un-discrimination', and invited all companies in the country to join the initiative.

Brazil: The 2004 Global Compact Summit in New York offered the opportunity for Brazilian President Lula da Silva to reflect on the Compact's tenth principle. Noting that the Global Compact could help change history, he called on the world's corporate leadership to embrace other needed reforms, including helping end agricultural subsidies.

Bulgaria: Opening the launch of the Global Compact in Bulgaria in January 2003, President Georgi Parvanov described the 'special role' that the Global Compact had to play in Bulgaria. Among its virtues, he identified its status as 'a sign for the social commitment of a given company but also as a hallmark of its legitimate position on the market.' He also saw the Compact as helping Bulgarian enterprise to meet wider EU economic, social and environmental standards.

China: In an interview prior to the 2004 Global Compact Summit, Cheng Siwei, Vice Chairman, National People's Congress told the Chinese media that the Global Compact reflected the 'new trend' within corporations to 'pay more attention to their corporate responsibilities toward society and people', and said that 'China supports the principles of the Global Compact and hopes they will become the voluntary actions of entrepreneurs' (unofficial translation from China News Agency, 24 June 2004).

Denmark: In a letter to the Danish business community in November 2006, the Danish Minister for Development Cooperation encouraged business to adopt the Global Compact.

France: Convening a high-level conference in June 2005 to prepare for the 2005 World Summit, President Jacques Chirac told French CEOs: '... companies participating in the Global Compact have made a pioneering act. I hope that the chief executives present here, and also the wider French business community, will go further along this road.'

Germany: Addressing the high-level conference 'Toward Fair Globalization' held in Berlin in October 2006, Chancellor Angela Merkel supported the Global Compact initiative and encouraged companies to join the Compact. In calling for more companies to comply with the Compact's principles when they invest and do business, she noted the potential for politicians and national states to 'achieve much more if we engage in partnerships with companies'.

Ghana: At the launch of the UN Global Compact in Ghana, Vice President Alhaji Aliu Mahama said that 'the Government's concern for the common good makes the Global Compact an ally.' He urged businesses to pursue their enlightened self-interest by signing the Compact, as social responsibility emerges as a major criterion in investment and purchasing decisions.

Kenya: In a statement delivered to the launch of the UN Global Compact Network in Kenya in February 2007, President Mwai Kibaki welcomed the initiative, which he said formed part of a wider public-private partnership to address core issues affecting business in Kenya. Achievement of Kenya's growth targets, he said, would depend on adoption of global practices by the private sector.

Korea: In a statement made at the United Nations in September 2006, the Ambassador of the Republic of Korea noted that 'various methods to facilitate real partnerships between governments, international organizations, and the private sector have to be considered. In this regard, the case of the Global Compact provides a worthy model of a successful business partnership'.

Mexico: Describing the Global Compact as 'this great cause', at the Compact's launch in Mexico City in June 2005, President Vicente Fox announced the commitment of his administration and the country's entire public sector to the 10 Global Compact principles. 120 Mexican businesses joined the Compact at the launch, but the number rose to 200 by the end of the day.

Mozambique: The Global Compact was launched in Mozambique in June 2003. At its launch, President Joaquim Chissano welcomed the uptake of the Global Compact across Africa, noting that it fitted well with the New Partnership for Africa's Development (NEPAD). Both were aimed at the fight against poverty through an active participation of the private sector.

Namibia: Assessing the future work of the United Nations, in October 2006 the Namibian Ambassador to the UN, Dr Kaire Mbuende, noted the need for 'alignment of corporate activities with the broader UN goals, programs and projects' and called for 'the strengthening of the Global Compact Office'.

Nigeria: Addressing an international conference on CSR held in Abuja on 6 March 2007, President Olusegun Obasanjo told participants that Nigeria would 'continue to encourage companies operating in Nigeria to disclose their CSR activities and provide encouragement for good CSR practices'. He expressed pleasure at the number of Nigerian companies that had signed on to the Global Compact principles and encouraged others to do so.

Norway: In a closing statement to an international conference in Oslo in March 2007, Norway's foreign minister, Jonas Gahr Støre noted that the questions had been raised of whether there were certain minimum standards relating to human rights, labour and the environment that should be adhered to world-wide and whether businesses should comply with these standards even when the host country does not. 'The ten principles of the UN Global Compact point in this direction,' he said. 'So do the Voluntary Principles on Security and Human Rights, and a number of others. I believe that all countries should apply these standards, and that all businesses throughout the world should comply with them.'

Pakistan: Welcoming participants to the pre-launch of the Global Compact in Pakistan in May 2003, the Minister of Commerce, Mr Humayan Akhtar, expressed his belief that the Global Compact initiative 'will not only set a roadmap for developing countries like Pakistan for creating greater viability and competitiveness in trade but will contribute to poverty alleviation through more job creation and economic activity.'

Singapore: Opening the Business for the Environment summit on 19 April 2007, Minister for The Environment and Water Resources, Dr Yaacob Ibrahim, commended UNEP and the Global Compact for 'aligning our activities with environmental responsibility'. He hoped that by hosting the event Singapore would be making 'a useful contribution towards helping UNEP and UN Global Compact spread the message of corporate social and environmental responsibility worldwide.'

Sweden: After establishing its 'Global Responsibility' initiative, three Swedish ministers wrote a joint letter to the Swedish business community encouraging their participation in the initiative. The initiative specifically references the UN Global Compact.

Ukraine: Minister of Foreign Affairs Borys Tarasyuk told participants in the Global Compact launch in Kiev on 25 April 2006 that the government was committed to working with the new Network, and that 'the commitment of the members to the ten principles ... makes these companies important partners of the Government of Ukraine' in its efforts to address key challenges.

United Kingdom: Launching the Global Compact UK website on 6 December 2006, Foreign and Commonwealth Office Minister of State Dr Kim Howells noted that 'with over 2,500 member companies in over 90 different countries, the UN Global Compact can make a significant contribution to spreading best business practice on labour standards, the environment, human rights and fighting corruption around the world.'

Zambia: Addressing the UN General Assembly in October 2006 on the issue of the Millennium Development Goals, the Zambian Ambassador commended the Secretary-General for launching the Global Compact as a 'developmental initiative' which would 'assist our country in her development efforts.'