



Global Compact International Yearbook

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SPOTLIGHT:
POST-2015 AGENDA

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H.E. Ban Ki-moon, UN Secretary-General

“ This year we are laying the groundwork for success in 2015 on three fronts: achieving the Millennium Development Goals, adopting a meaningful new climate agreement, and establishing a new vision for a sustainable future.

I thank the Global Compact for elevating post-2015 priorities on the agendas of business around the world.

The year 2015 also marks the 15th anniversary of the Global Compact itself. This is the first and only public-private initiative of the United Nations based on network governance. Its unique role and attributes have enabled it to grow and innovate beyond all expectations. The initiative has transitioned to a new phase defined by global strength and action.

One of my top priorities is to harness the full power of partnership across the range of UN activities and to scale up UN capacity to engage in transformative actions with the private sector as well as civil society, philanthropy, and academia.

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THE POST-2015 AGENDA

From Millennium Development Goals to Sustainable Development Goals





MDGs AND SDGs: ARE THE CONCEPTS COMPATIBLE?

By Dr. Markus Loewe

For the last 20 years, the international development debate has been dominated by two trends that seem, at first, to be heading in a similar direction. However, under closer scrutiny, they differ with respect to their focus and underlying philosophies. On the one hand, there is the agenda of reducing poverty in developing countries in its various dimensions, which found its expression in the Millennium Development Goals (MDGs). On the other hand, there is the idea of sustainability that became popular at the Earth Summit in Rio de Janeiro in 1992 and that, at the Rio+20 summit in 2012, generated a parallel concept to the MDGs: the so-called Sustainable Development Goals (SDGs).

As a result, two separate processes started within the United Nations (UN) system: one of them to discuss whether there should be a new global development agenda after the term of the MDGs ends in 2015, and what such an agenda should entail; and the other to compile a list of possible SDGs. Fortunately, the UN took a decision in September 2013 that there should be only one post-2015 list of goals that has both an SDG and post-MDG agenda.

The challenge is, however, to design such an agenda that fulfils the aspirations of both the proponents of the MDG concept as well as the proponents of the SDG concept. This article suggests that the post-2015 agenda should consist of two separate but mutually referring sets of goals – one concentrating on human development, the other on global public goods.

Emergence of the MDG concept

The MDGs are the result of a process that began in the 1980s that aims at making aid more effective and focusing it more on poverty reduction. In addition, it started to look at poverty as a multi-faceted phenomenon rather than just a lack of income.

In a number of world conferences, long lists of goals in the areas of education, food, child development, and more were adopted. The most important of these goals were consolidated in the UN's Millennium Declaration, from which the MDGs were taken in 2001.

The strength of the MDGs is that they constitute a manageable number of straightforward goals that are easy to understand and measure, and they offer a clear deadline. This made it possible to rekindle the interest in development issues in the countries of the North and strengthen the willingness to put more resources into aid. Further, the MDGs have increased the accountability of all relevant actors of international development, which has contributed to greater results-orientation and effectiveness of development policy.

Limitations to the MDG concept

Critics argue, however, that there are too many limitations to the MDG concept.

First, the MDGs are an incomplete agenda. They originated in the Millennium Declaration but cover only two of its chapters (on development and the environment), completely leaving out the chapters on disarmament and good governance.

Second, the MDGs neglect distributive issues. Inequality is a severe obstacle to many aspects of development. Nevertheless, the MDG agenda contains only one indicator (under the heading of MDG 1) capturing one aspect of distribution: the share of the poorest quintile in consumption. In addition, the focus of MDG 1, at least, is on the most deprived individuals in society. In contrast, MDGs 4 and 5, for example, call for improvements in mean values of mortality rates, thereby ignoring who benefits from such progress. As a consequence, many governments may be tempted to reduce child and maternal mortality rates for social groups that already enjoy below-average rates (such as, e.g., the urban middle class). Progress for these groups may be cheaper and easier to achieve than for the most deprived



groups, who often live in squatter and rural settlements, thus making it more difficult for healthcare services to reach them.

Third, some MDGs measure outputs or inputs rather than outcomes or impacts of development. MDG 2, for example, measures only the intake of education, regardless of its quality or relevance for economic, social, and political life. Its existence has led to a significant acceleration in the rise of school enrollment rates. But in many countries this has been at the expense of the quality of education: More children went to school, but the number of teachers and the space in school buildings did not increase correspondingly.

Fourth, some MDGs cannot even be measured — either because no indicators or targets were set, or because no data is available for certain indicators.

Fifth, the MDGs cannot easily be transformed into national objectives. They were originally formulated as global goals, but without modification they were increasingly seen as national objectives in order to create national accountability. This interpretation constitutes a particular challenge to the least-developed countries, which tend to have started out in the baseline year of 1990 with much poorer performance levels than other countries with regards to most MDG indicators. Therefore, it has been especially hard for them, for instance, to achieve MDG 1c, which calls for a reduction by

half in the share of malnourished people between 1990 and 2015. Countries that start with a higher share of people with malnutrition have more difficulties in achieving the goal than other countries, because the goal implies the need for a much greater reduction in the absolute number of people with hunger.

Sixth, some goals at the global level were unrealistic right from the start (e.g., MDG 2, which demands total enrollment in primary education worldwide), whereas others demonstrate low ambitions, at least at the global level (e.g., MDG 1, which seeks to halve the share of people suffering from income poverty and hunger across the globe).

Furthermore, many criticize the MDGs as well for being too focused on the social sectors and neglecting the production sectors and economic development. This judgment, however, is unfair for two reasons: First, the MDGs do not focus on particular sectors, but on goals of human development. Achieving the health goals (MDGs 4–6) may well require investments in healthcare, but it may also (and often even more) call for investments in the education or water sector. Second, economic growth, transport infrastructure, and a functioning private sector tend to be essential as preconditions for long-term poverty reduction and the achievement of the MDGs. But they are not ends in themselves and should therefore not have a place in an MDG agenda.

Emergence of the SDG concept

Proponents of an SDG agenda further criticize three other aspects of the MDGs: (i) They are not global goals and ultimately put obligations on the developing countries; (ii) they are generally short- to medium-term, and thus run counter to policies that are oriented toward sustainability, which necessarily have to be inherently longer-term; (iii) central areas of sustainable policies — chiefly environmental objectives — are not reflected sufficiently.

These points of criticism are justified. The first one can be addressed by formulating goals in a way that takes the stages of development of individual countries into account. The other two question the MDGs more generally. However, current proposals for a future SDG agenda so far have not created an alternative to the second criticism. It, too, envisions a rather short-term horizon, and the indicators suggested so far do not include aspects of sustainability. The proposed agenda differs from the MDGs mostly in that there is a wider range of goals that matter from a sustainability perspective.

Of course, the MDGs are not a purely socio-political agenda, and neither would potential SDGs be just focused on the environment. Both approaches involve similar ideas. They differ mostly with respect to their underlying thinking: Whereas the MDGs are mostly inspired by improving the

living conditions of the poorest people, the main concern of SDGs is shaping development sustainably.

Consequences for the post-2015 agenda

There needs to be coordination when incorporating the agendas of the MDGs and SDGs into the post-2015 agenda. Indeed, it is necessary to design an integrated agenda for post 2015 that takes the poverty as well as the sustainability debates into account.

Such an agenda should have the strengths of the MDG concept while avoiding its weaknesses. Its goals should hence:

- be relevant in both objective and subjective terms like the MDGs;
- contain once again only a limited number of easy-to-understand goals;
- be goals for people, such as the MDGs, that is, final end-goals rather than instruments;
- be SMART (specific, measurable, agreed, realistic, time-limited);
- be more comprehensive than the MDGs (i.e., include additional dimensions of development/well-being such as, e.g., political, socio-cultural, and protective capabilities);
- consider distributional issues;
- avoid inconsistencies (all targets should focus on outcomes rather than inputs or outputs);
- be truly universal, that is, defined on the global level but relevant and applicable nationally for all countries;
- be binding for all countries, though;
- be ambitious but realistic and fair — globally and for every single country; and
- ensure the sustainability of development.

Selection of goals

A major issue in the negotiations on a future development agenda, which started in early 2014, is the question of which goals should be included. The discussions on this issue should be guided by the selection criteria listed in the previous section.

In any case, it is almost beyond any dispute that the issues concerning reduction of income poverty, food security, education, health, family planning, and gender equality will show up again in one way or another. In addition, it is a good idea — agreed upon by most countries — to include a goal infrastructure that will encompass the already included sub-goals of water and sanitation, as well as adequate housing and energy supply.

Further, there might possibly be agreement on a goal concerning resilience that refers to human and social security — that is, the protection of human beings against social risks; economic risks; natural and ecological risks (e.g., earthquakes, floods,



POSSIBLE STRUCTURE OF A POST-2015 INTERNATIONAL AGENDA IN TWO PARTS

Part 1:

Human development objectives (final goals of development)

5–8 goals such as, for example:

- **Reduction of income poverty**
- **Food security**
- **Education**
- **Health and family planning**
- **Infrastructure** (energy, housing, water, and sanitation)
- **Clean environment** (air, water, resources)
- **Resilience** (social protection, human security)
- **Good governance** (transparency, efficiency, political participation, human and civil rights)

Monitoring: on the local (micro) level and differentiated by gender, income, and location in order to control for the distribution of policy outcomes (equality)

Part 2:

Essential global public goods (instrumental goals/enablers of development)

5–8 goals such as, for example:

- **Limiting climate change**
- **Joint global management of resources** (oceans, the atmosphere, space, the polar regions, fresh water resources)
- **Contention of infectious diseases**
- **Stability of financial markets**
- Open, rules-based, and fair **world trade system**
- **Clean environment** (air, water, resources)
- **Control of international terrorism**
- **Disarmament of anti-personnel mines and weapons of mass destruction**

Monitoring: on the international level



made to them could be strengthened. Others are outcomes of development, and thus could easily be included in a new agenda (such as protection against desertification or soil degradation). But the same is much more difficult to accomplish for goals that cannot be measured according to indicators at the micro-level and that, strictly speaking, are not actually final goals, but rather instruments, that is, “enablers” of development, for example climate stability. Without them, many final end goals of development cannot be achieved in the long term.

A two-part agenda

Because of this instrumental relationship, it makes sense to differentiate between them and final goals of human development (see left side). It would be conceivable to establish an international development agenda in two parts: one of which would concern itself with final goals of human development, and the other with the creation/protection of global public goods that are key enablers (preconditions) of human development. The latter would build on MDG 8 and also contain all those goals that the world community can only achieve by working together. The former would include MDGs 1-7 and some sustainability goals that are now missing in the MDG agenda. Such a division makes sense because (i) the goals on either side of the agenda are conceptually different; (ii) improvements for the former can be measured at the national and sub-national levels as well as globally, whereas for the latter in general they can only be measured globally; (iii) the goals of both parts are instrumentally linked.

Moreover, this would also take into account the concerns of proponents of a new MDG agenda as well as those in favor of SDGs. Such a division into two parts would limit the marginalization of goals for poverty reduction, while the second part would ensure that the most important criteria of sustainable development would at least be taken into account.

MDGs and SDGs would be combined to form a unified agenda, living up to the expectations of the paradigms of both poverty and sustainability.

The objectives of this agenda should be global in every sense of the word: The goals of the second part are global by definition, as they refer to global public goods and can thus only be measured globally. But those of the first part should also apply to all nations rather than just the developing countries, as is the case with the current MDGs. This will require differentiation to transform the global goals into national objectives, making them both achievable but also ambitious, according to each country’s capacities. This will encourage the reduction of poverty, mortality, and school dropout rates in the rich countries as well.

Whether such an agenda will come together has yet to be seen. After all, more important than its actual manifestation is that it needs to be accepted by all governments and societies. In contrast to the inception of the MDGs in 2001, the developing countries need to be fully involved in the elaboration of the new agenda right from the beginning, and the concerns of governments and NGOs both in the North and the South need to be considered in equal measure. ■



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drought); man-made ecological disasters (e.g., river pollution, deforestation, nuclear disasters); and social and political risks (e.g., theft, rioting, resettlement, war, coup d’état).

In spite of possible opposition from certain countries, it would also be desirable to introduce a framework for political and socio-cultural capabilities (e.g., human rights, good governance, peace, social inclusion).

In addition, it would be desirable to take distributive issues into consideration. This does not mean introducing an additional goal distribution but rather measuring achievements toward each goal separately for different population groups. It would

be even better to give results different weight according to the segments of the population (rich and poor, women and men, urban and rural, disadvantaged and privileged, etc.) in order to avoid that countries as a whole make sufficient progress toward goals that are due to fast progress by some population groups and stagnation by others.

Most controversial is what can be done to improve the status of environmental goals. The Rio+20 Declaration suggests a number of objectives for a prospective SDG agenda. Many are already included in the MDG agenda as sub-goals or indicators (i.e., biodiversity, protection of forests, reducing carbon emissions), but their status and the commitments



“ Vision 2050 outlines pathways that map a transformational change of existing systems to achieve this overarching goal. ”

THE ARCHITECTURE OF A SUSTAINABLE FUTURE

By Peter Bakker

To create a sustainable future, we first have to be able to envision a future that is radically different from the world we know today. That means that the first step for any organization wanting to “become sustainable” is to have a vision of what its activities, products, or services would look like if it were, in fact, “sustainable” — not just in terms of the impacts and dependencies on the people and resources a company requires, but also with regard to the broader environmental and societal impacts of its activities.

In 2010 the World Business Council for Sustainable Development (WBCSD) published a groundbreaking piece of work: Vision 2050. It was the first time that global business publicly stated that business as usual was no longer an option. Our vision is incredibly simple, as all grand goals must be: that by 2050, 9 billion people will be able to live well, safely within planetary boundaries.

Vision 2050 outlines pathways that map a transformational change of existing systems to achieve this overarching goal. WBCSD’s Action2020 platform concentrates on addressing nine science-based priorities with business solutions that can result in measurable positive impacts at scale. The nine priority areas for action were selected and range from climate change to ecosystems and land use, and from basic needs and rights to sustainable lifestyles.

These science-based, actionable priorities, and the societal goals that were developed alongside them, form the core of WBCSD’s Action2020 work platform. With our members, we are working to develop business solutions that can have a measurable and significant impact toward achieving these 2020 societal goals — we call them “Societal Must-Haves.” They need to be scalable, replicable, beyond business as usual, and, most importantly, able to overcome barriers that will inevitably appear in their way.

Of course, business cannot do everything by itself. It is in a unique position with unique capabilities — it has the financial resources to develop innovative products and services, and it has management and technological capabilities to bring them to scale. But to achieve ambitious and audacious societal goals, business will need the support of smart policies, capital markets, education institutions, and, above all, a collective acceptance of the need for change at all levels of all societies.

Part of this change will be redefining “value.” We need to move away from a model where shareholder value is the only criteria for measuring business performance to a model where financial, social, and natural capital are measured and managed in an integrated way.

It is for these reasons that WBCSD and the Global Reporting Initiative partnered with the UN Global Compact to develop the Post-2015 Business Engagement Architecture. At its center is a new corporate sustainability philosophy that expands the definition to include a company’s delivery of long-term value in economic, social, environmental, and ethical terms. The architecture is built on a foundation of long-term business goals that protect corporate “value.” Advancing inclusive growth, social equity and progress, and environmental protection are accepted as key factors of sustainable revenue stability, resource productivity, and the mitigation of operational, legal, and reputational risks.

The architecture is designed not only to support the ability of global business to deliver long-term strength and resilience,

but also to enhance the overlaps between public and private interests, which are essential to increasing overall engagement in taking action to scale.

The architecture is available for all. We are working to create a world where it makes perfect business sense to follow its guidelines, where more sustainable companies are recognized and rewarded, and where the world and the societies we live in also benefit.

The overlap between Action2020 and the post-2015 issue priorities emphasizes the potential of business to bring about meaningful change. Forward-looking companies see this as an essential route to securing the futures of their businesses — to their own future sustainability. Together, we have set out on a journey where business plays its part in creating a sustainable future. Join us. ■



Peter Bakker is President & CEO, World Business Council for Sustainable Development (WBCSD).



CORPORATE RESPONSIBILITIES IN THE CONTEXT OF THE POST-2015 SUSTAINABLE DEVELOPMENT AGENDA

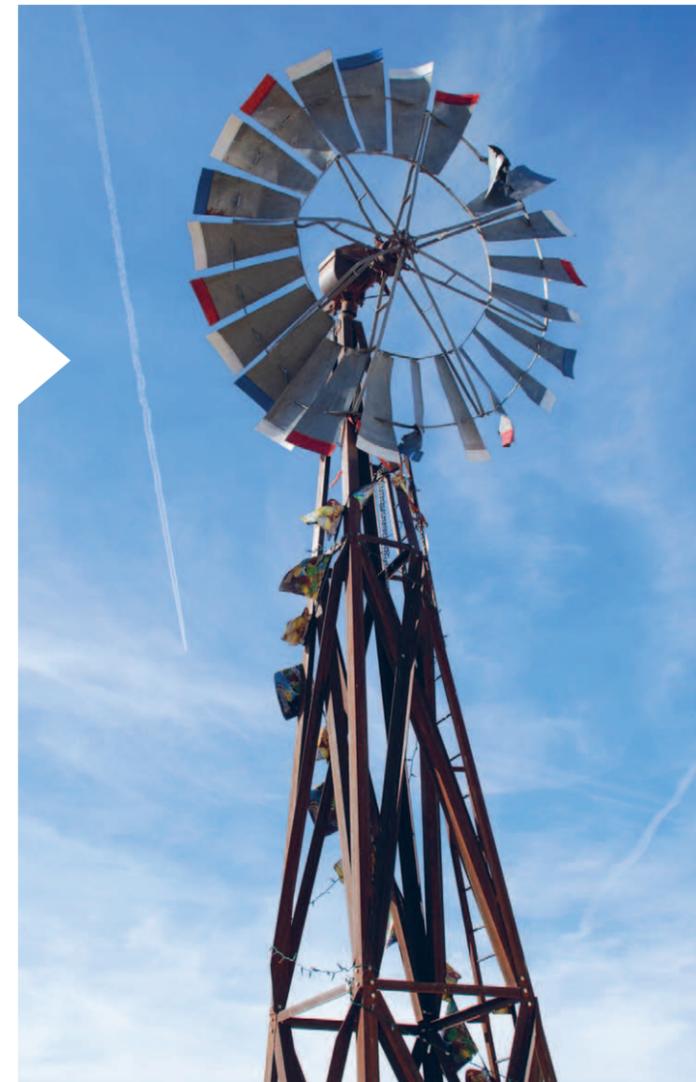
By Prof. Dr. Klaus M. Leisinger

The shared understanding of a majority of scientists, representatives of civil society, and multilateral institutions as well as of a growing number of enlightened leaders from the private sector is clear: Global economic, social, and environmental systems are on an unsustainable trajectory. Phenomena such as climate change, extreme weather events, rising sea levels, acidification of marine ecosystems, loss of biological diversity, and other environmental changes are likely to have negative impacts on the development opportunities and choices of future generations. The consumption of nonrenewable resources continues to be much higher than the substitution through renewable resources.

Extreme poverty, poor health, inadequate nutrition, and other forms of human deprivation are widespread and reduce development opportunities of the generation living today. One result is increased internal as well as international migration — depriving rural areas and poor countries of the most valuable development resource: the initiative and skills of young people. Even in rich countries, income and wealth disparities are widening, and high unemployment — particularly among young people — is becoming endemic. The world population will grow from today's 7.2 billion people to more than 9 billion by the year 2050.

On the other hand

Despite all this, there is no reason to surrender to melancholic pessimism. When resources are priced properly, resource-intensive and ecologically damaging goods will become more expensive — and hence less attractive. Competition encourages producers to make the use of such goods cost-effective — that is, to minimize their use. Companies that take their responsibility toward the environment seriously and develop better products and processes will have a competitive edge. Under such conditions, the competition inherent in open markets becomes the primary driving force for the creation of ecologically-sound technology. If markets were made to work for the environment by applying “full-cost pricing” along with the polluter pays principle, ecological innovation will be encouraged on the product and process levels.



When *The Limits to Growth* was published in 1972, it created enormous fears. Things developed differently, as the views around the first UN Conference on the Human Environment underestimated the potential of economic feedback mechanisms and human creativity to lead to improved technologies, substitution mechanisms, and modified patterns of behavior. Despite the world population having more than doubled over the last 50 years and a substantial increase in consumption, most metals, food, and other natural resources have become more available rather than scarcer over time. As most of the world's known reserves increased, the prices (adjusted for inflation) of most natural resources came down. The main pollutants have declined in most industrial countries, and air and water quality have improved — new threats, such as the accumulation of greenhouse gases, have developed. Microorganisms such as smallpox, plague, cholera, typhus, and the like, which threatened the lives and health of earlier generations in industrial countries, have been successfully conquered and are much better contained than they were 50 years ago. There has also been spectacular progress in the management of diseases such as HIV and malaria.

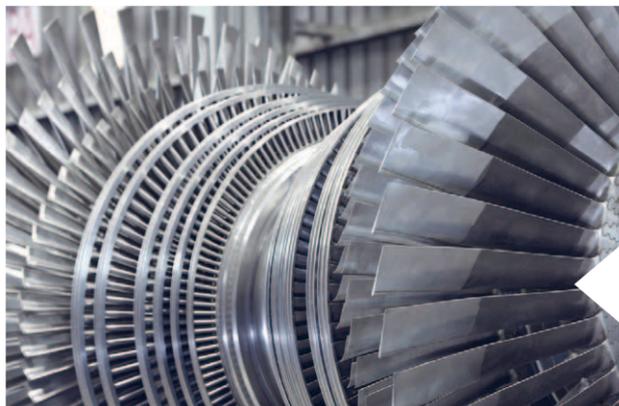
Will the future be so different? Those believing in human ingenuity as a powerful force make an important contribution to the sustainable development debate by pointing out that we should be interested not so much in a specific resources per se (copper, for example) but in the particular services that resources can yield (such as the capacity to conduct electricity). The same point was made long ago by Amory Lovins in arguing for the potential of energy efficiency. If the services required for sustainable development can be supplied by other resources (such as optical fibers or hydrogen-based energy), the availability of the original resource (copper or fossil resources) has no great significance. If scientists are able to assemble atoms and molecules into new materials that can be substituted for a scarce resource, that specific scarcity becomes irrelevant. There is no reason to assume that similar mechanisms will not help to deal with emission issues better.

Creating awareness about actual and potential problems associated with the “business as usual trajectory” and drawing attention to possible associated outcomes remains an important part of the sustainable development discourse: Warning voices provoke new thinking and different perspectives, and they trigger political reactions as well as changes in human behavior that, in their entirety, confute all predictions. The real world is characterized by continuous feedback mechanisms and interactions (circular interdependence), and human ingenuity holds out the promise of endless innovations. Nothing remains unchanged, since humans respond intelligently to altered circumstances, to conflicts and shortages: Intensive research yields new knowledge and significant technical innovations. For this reason, the competition for resources between current and future generations need not be a zero-sum game in which one

party can only win if the others lose. Owing to technological progress, what the present generation regards as “sustainable” may be totally irrelevant for future generations. The opportunities created by technological advances and appropriate (full-cost) pricing continue therefore to be highly significant for the sustainable development debate — they help stretch the time needed for eventual changes in human behavior with regard to their production, consumption, and waste patterns.

A precautionary approach for sustainable development...

Despite all this, there is no reason to propose an undifferentiated business-as-usual approach. What is to be developed is a “middle path” between approaches that tend to move toward the future in the spirit of Hans Jonas’s “heuristics of fear” and



those who believe that improved technologies and new research findings open up completely new possibilities for future action — that is, an unfettered business-as-usual optimism. What ought to be kept in mind is the precautionary principle accepted by the international community in 1992 with its support of the Rio Declaration on Environment and Development. So, the challenges that need to be overcome in order to design a sustainable development path are immense. There is no universal blueprint. Whatever changes, the main features of “Development with a Human Face” will continue to be

- economic prosperity, that is, higher discretionary income, and thus an increase in personal choices — but above all an end to extreme poverty and hunger;
- distributional fairness of available opportunities and social inclusion as well as fair access to social services;
- environmental stewardship, that is, respecting planetary boundaries in all investments as well as production and consumption decisions; and
- good governance at the international level, as well as in every country and by all sectors of society, including governments,

businesses, and civil society organizations. The minimum criteria are the protection of human rights, a rational, responsible, and transparent use of authority, as well as allocation of funds in the management of a country’s or institution’s economic, ecological, social, and political resources.

... and a new standard of practices for all

The goal of the sustainable development discourse — very similar to the aspiration articulated in the preamble of the Universal Declaration of Human Rights — is a new common standard of practices for all peoples and all nations, to the end that every individual and every organ of society. Given the scale and complexity of problems to be solved, individual actors or institutions by themselves cannot make a decisive



difference. Successful endeavors to change the development path necessitate a multistakeholder approach, whereby the international community, multilateral institutions, national governments, regional institutions, civil society, and the business sector as well as individual households share responsibility and commit resources, skills, and know-how to achieve sustainable solutions in a fair way. In the same way that a nation’s economic and social success is greatest when there is a fair division of labor and responsibility between different societal actors, sustainable development will benefit from shared values and common understanding over basic issues and opportunities.

The primary responsibility for human development undoubtedly continues to rest with national governments and their administrations. It is their duty to set the appropriate priorities, allocate the resources available to them accordingly, and work in the most cost-effective way. But the corporate sector — the single most efficient source of economic activity — has its share of responsibilities, too.

Corporate risks and opportunities in the context of the post-2015 development agenda

Assuming sustainable development — related responsibilities means different things in different sectors; in all cases it is likely to involve additional costs and expenses. However, these ought to be considered as strategic investments for the continuance of old — and the creation of new — business opportunities.

Rising societal sensitivity in high-income and emerging countries will result in a more pronounced awareness of the growing dangers and the positive or negative roles played by sectors and individual businesses. As public expectations grow, businesses are well-advised to look beyond short-term market signals and work closely with multilateral institutions, governments at all levels, scientific institutions, and civil society to identify sustainable development challenges and implement solutions. Business may not be able to solve all these problems, but business cannot thrive in a society that fails to solve them.

Companies that establish a reputation for problem-solving are likely to be rewarded with government and community support. They are likely to enjoy differential acknowledgment and be seen as reliable partners in addressing long-term sustainable development challenges. This again is likely to allow them to help shape public policies in support of sustainable development, improve their positioning in the present and future marketplace, and maintain their social license to operate and grow.

Companies and sectors on the wrong side of sustainable development are likely in the long term to face diminishing opportunities and increasing challenges. Such companies may, in the short term, continue to earn — and even increase — their profits, even while they despoil the environment or ignore other societal needs, but they will not thrive in the long term as societies and governments gradually revoke their (social) license to operate. Indeed, the very survival of those companies is threatened when they come to be seen as being directly opposed to the interests of society.

Probably the most important obstacle for corporate actions in line with the requirements of sustainable development is the current structure of incentives: The costs and expenses for business enterprises occur today, whereas the possible return on investment is likely to become a reality “later” — and certainly outside current accounting cycles. The widespread focus on short-term performance in the context of financial markets, quarterly corporate reporting cycles, and — for politicians — the rhythm of election cycles constitutes a potentially high hurdle for long-term returns. Enlightened corporate leaders today already agree that a business that strives to save on costs or exploit opportunities by going to the edge of what is legally

permissible instead of living up to the spirit of a UN Global Compact — based corporate responsibility philosophy may look better in the short term, but it is likely to create higher risks of accidents or perceived misconduct. Therefore, when faced with dubious legal standards, good management practices wisely exercise self-restraint and avoid morally ambivalent business practices.

Enlightened corporate leaders today also agree that economic success achieved with collateral social or ecological damages — or, even worse, human rights violations — offends human dignity (including the dignity of those responsible for such conduct) and destroys public trust. You do not have to study moral philosophy and make complex ethical analyses to come to the conclusion that corporate activities should do no harm and that international norms ought to be respected — these *minimal moralia* simply represent good management practices and mere decency.

What is needed is the application of this responsibility mindset to a long-term time frame and appropriate actions today in view what is demanded in a long-term perspective. This requires leadership profiles and value management of a different kind. Corporate leaders will have to participate in the public discourse on sustainable development; be exposed to and learn from constituencies outside the business silo; create transparency; and explain complexity as well as share dilemmas. Management of the manifold dilemmas posed in the context of corporate responsibilities for the post-2015 development agenda necessitates a values-based approach and a reference to what the High-Level Panel emphasized in its report *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development*: namely, a global moral common sense.

Common values for sustainable development

We are faced with an incentives problem. Barely existing today are the incentives for individuals or institutions to:

- pay or invest in something now that might bring a return on investment in the long term;
- accept changes in accustomed production and consumption habits for a long-term benefit;
- endure uncomfortable alteration due to different patterns of individual mobility now for an infinitely small contribution to the prevention of problems in the future;
- change other aspects of the “*courant normale*”; or
- for politicians, inflict short-term burdens for long-term change on their constituencies.

The “costs” accrue immediately, whereas the returns become apparent only in the long run, and for different people probably at different places in the world — if at all (because deterioration of the status quo has been prevented due to the impact of the

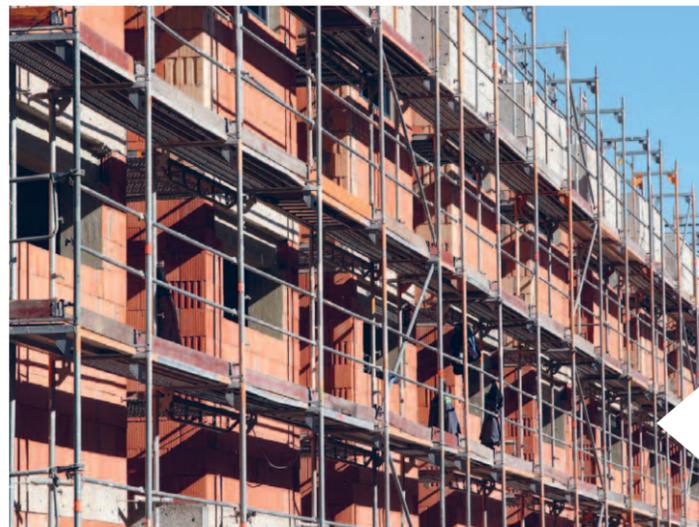
changes). Awareness-raising through education and advocacy, tax reforms so that all costs tell the ecological and social truth, and appeals for enlightened self-interest will be necessary to motivate a small but increasing number of people worldwide.

Above all, sustainable progress for a global development path that is compatible with our planetary boundaries and the sound opportunities of future generations to satisfy their needs depends on a common ethical denominator. A “future we want for all” rests on the core values of human rights, equality of opportunity, and social as well as ecological sustainability. The identification with a global common moral ground may allow for an enlightened common interest perspective. It is only this that is likely to make it possible for individuals and institutions to “give” without immediately “taking,” to forgo superficial consumption today for the benefit of the preservation of scarce resources, or to invest now for the benefit of other people’s children living in the future elsewhere in the world. Only the internalization of a common minimum of core values such as respect for life and human dignity; mutual respect; peaceful settlement of conflicts of interest; justice and fairness; and the firm intention to honor the Golden Rule principle of reciprocity – that is, to treat others as you would wish to be treated – opens the possibility to find a common sustainable path for human development. If and when lifestyle models such as “sophisticated modesty,” “smart simplicity,” and “prosperity light” become fashionable, they are likely to become attractive as development patterns for the rising middle-class populations of the world. The evidence that “more” in terms of conspicuous consumption does not necessarily mean “more” in terms of happiness and quality of life has been shown clearly.

As stated by the World Commission on Culture and Development, another important commonality in the work just cited is that human development can no longer be perceived as “a single, uniform, linear path, for this would inevitably eliminate cultural diversity and experimentation, and dangerously limit humankind’s creative capacities in the face of a treasured past and an unpredictable future.” Last but not least, there is a pronounced need for political and corporate leadership, one “made strong by vision, sustained by ethics, and revealed by political courage that looks beyond the next elections.” The corresponding equivalent for business leaders would be moral courage that looks beyond short-term economic results.

General affirmation of normative terms versus concrete rejection in a specific context

So far, so good. But the next step – the operationalization and application of such abstract common values – is a complex task. We owe Michael Walzer for the important consideration that the basic approval of a general abstract norm among people does not necessarily mean consent in the application of such a norm to specific circumstances. As he states in his



book *Thick and Thin. Moral Argument at Home and Abroad*: “Moral terms have minimal and maximal meanings; we can standardly give thin and thick account of them, and the two accounts are appropriate to different contexts, serve different purposes.” When evaluating the Ten Principles proposed by the Global Compact or those recommended by the Sustainable Development Solutions Network, reasonable people all over the world will agree that they are right on target; no rational person can disagree with goals such as “ending poverty,” “qualitative education for all,” “good governance and realization of human rights,” “gender equality,” and “health and well-being at all ages.” Most experts in the different science categories will also agree on the targets associated with the goals. From a corporate perspective, however, this agreement and support is “thin.”

In order to operationalize them – to make the agreement and the support “thick” – the potential (general) responsibilities will have to be differentiated at least

- by industry sector (given that the pharmaceutical industry, the extractive industry, the agro industry, the textile industry, the financial industry, and any other industry have – besides the nonnegotiable duty to adhere to the law and regulations – very little in common);
- by initial condition and resource base of a company (given that small and medium enterprises in low-income countries have totally different resource bases – and thus breadths and depths of their responsibility portfolios – than high-performance multinationals from OECD countries);
- by culture context (given that valuations about “desirable” and “undesirable” vary according to different “collective programming of the mind, that distinguishes the members of one group or category of people from another... with consequences for beliefs, attitudes, and skills as well as systems of values,” as stated by G. Hofstede in *Culture’s Consequences*); and

- by the “do no harm” principles of the Global Compact and the “do good” requirements of its LEAD initiative.

Also in the context of the corporate responsibilities for the post-2015 development agenda, the top management of a company will have to go through a conscious management cycle.

Nice words are fine, but hens lay eggs

The wisdom of the African proverb about hens laying eggs puts the intuitive sentiment in one sentence: Articulating nice statements and issuing attractive brochures does not really help. On the contrary, if actual performance deviates from the messages given, there will be cynicism and frustration on the side of the employees, and if the actual performance deviates from public expectation, external criticism will arise. Companies competing with integrity have answered the basic question: They want to be “part of the solution,” not “part of the problem.”

The appropriate way for a company to proceed is to undergo a similar strategic reflection process regarding the Ten Principles of the Global Compact in general, and to reflect – and possibly consult – with specific stakeholders about what their post-2015 development agenda responsibilities could be.

- In light of the encouragement about “taking action in support of broader UN goals and issues,” what can the company do, and what is it willing to engage?
- In what areas does the company have experience, skills, resources, and networks in connection with its core competences that would be especially useful in supporting broader UN goals?
- Who are the relevant stakeholders with whom the company could cooperate in strategic social investments and philan-

thropy? What are their stakes and expectations? What are the experiences from earlier cooperation?

- How does the company proceed if the expectations of civil society conflict with those of the financial community?
- Which are the areas that could lead to a business case in the years to come?
- Is the company willing to allocate human resources and financial budgets over three to five years to allow for a sustainable program rather than short-term projects?

Sustainable development value management

Once this groundwork is done, corporate management will have choices from a structured portfolio and can set the priorities that fit best with the overall corporate strategy. And then – as usual in value management – SMART targets have to be set; internal and external communication initiated; employees and business partners committed and incentivized; performance appraisals, promotion criteria, bonus systems, and compliance management adjusted appropriately; and benchmarking done.

Allocating time for top management to reflect on such issues is, in my experience, the most important element of a successful corporate responsibility process, as it goes beyond the business-as-usual trajectory. Dialogue with internal and external stakeholders helps in reaching informed decisions about the content, scope, and limits of post-2015 development agenda responsibilities. Corporate management thereby becomes familiar with the multiple demands of different stakeholders. Managers are challenged by values, concerns, views of the world, and perceptions of corporate obligations, which can differ substantially from their own. But this learning experience – as challenging as it may sometimes be – enhances the social competence of corporate management. Such dialogues are, in the best of all worlds, a two-way street: Civil society stakeholders also have the opportunity to learn about the mindset of management and about the ways that managers make decisions on the basis of business fundamentals, and hence these stakeholders can better assess where there are limits and nonnegotiable essentials for profit-oriented corporations. ■



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MEASURING SDGs

While indicators have been developed and used in reporting progress toward the MDGs, the approach to upcoming SDGs must be systematically developed.



GOING BEYOND GDP – MEASURING SOCIAL PROGRESS

By Julia Vol

Agreement is emerging between politicians, social actors, and businesses worldwide – that economic growth alone cannot provide an accurate indication of prosperity. Relying on economic growth as the sole measurement for social progress provides an incomplete picture. But there is a new measurement that attempts to provide a better understanding of the components of a successful society and social order.

Traditional measurements such as gross domestic product (GDP) measure only how much money is generated within the system, but GDP does not measure the social, environmental, or long-term economic costs of generating these gains. Purely economic measurements also fail to represent how the money within the system is distributed, how it is used, and who gets to enjoy it. All of these factors must be taken into account when assessing social progress, equality, and quality of life throughout societies and countries.

None of the economic “bads” such as pollution and child labor are included in any GDP measurement. Absurdly enough, war spending and costs for the recovery from natural disasters have a positive effect within the GDP matrix, while obviously having a negative impact on the quality of living of the people affected. In addition, economic growth without social progress does not translate into greater well-being and stability. On the contrary, it might actually contribute to growing social gaps and discontent, which can eventually threaten the entire system. Accounting for all the factors

above, we cannot allow business as usual and the use of GDP as an acceptable measurement for progress and well-being.

Over the past years, there have been many attempts to come up with new, more holistic indicators to replace or supplement the problematic use of traditional GDP. Measurements such as gross domestic income, the GINI coefficient, and the Human Development Index have been offered as alternatives, but they are often criticized for leaving out important components such as ecological considerations, or for being socially, culturally, or contextually biased.

Alternative measures

To respond to this criticism, the Social Progress Imperative was founded in 2012. A beta version of their first research product was published a year later: the Social Progress Index (SPI). In April 2014, the first official SPI was introduced, which gathered and compared information from 132 countries around the world. The Social Progress Imperative Foundation



was created in cooperation with academia, global corporations, and civil society organizations. Chaired by Professor Michael Porter (the creator of the Shared Value concept), and with partners such as Deloitte and the Skoll Foundation, the organization established a new groundbreaking measurement, which incorporates 54 indicators that address many of the flaws of the previous measurements. It provides the most holistic and accurate representation of reality so far.

The Social Progress Index aims to meet the growing need for a well-being measurement that addresses the issues mentioned above and provides a useful tool for governments, societies, and businesses to obtain a better understanding of a country's performance, highlight challenges, and catalyze action.

The authors of the report define social progress as “the capacity of a society to meet the basic human needs of its citizens, establish the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and create the conditions for all individuals to reach their full potential.”

The remarkably innovative feature of the index, which distinguishes it from previous metrics, is that it does not take economic factors into consideration. It measures results rather than “intentions” – spending and investments. The index consist of 54 indicators, which are broken down into three main categories – basic human rights, foundation of well-being, and opportunity. It attempts to account for the features that answer the question: What does a successful country look like?

Breaking down the matrix into 54 indicators helps to highlight the positive and negative factors within the overall score. They will assist in the discussion on national and social priorities, which should be addressed in efforts toward improvement, as well as help in generating tangible results.

(Un)usual results

At first glance, the SPI scores put the “usual suspects” at the top – the countries that are known for the high quality of their living standards, such as New Zealand, Switzerland, and the Scandinavian countries – whereas sub-Saharan states are at the bottom. However, when looking closer and reading into the indicators, interesting facts are revealed.

Switzerland, which is ranked second overall, scores only 12th place in the “Opportunity” measurements, with its lowest score referring to “Tolerance and Inclusion.” Although Iceland placed third overall, the country does not lead in any of the 54 individual dimensions.

And even though Western and developed countries perform very high on wealth and social well-being indicators, their scores on ecosystem sustainability are rather poor – Canada and Australia are in 46th and 47th place, respectively.

Such insights help to point out the specific issues that should be addressed by governments, society, and business in a much more accurate way than has been offered by previous measurements.

Comparing the scores of the SPI to the GDP per capita data of countries proves that the rate of economic growth often does not reflect well-being and prosperity. Iceland and New Zealand top the SPI but have much lower GDPs per capita and are ranked 14th and 30th, respectively. Meanwhile, Russia and Croatia, with similar GDP rates, score very differently on the SPI. Croatia is positioned 36th, whereas Russia ranks 80th and exhibits very different social conditions. Such results draw a clear picture of how economic growth is not nearly sufficient to represent quality of life or point out social shortcomings.

The publication of the Social Progress Index this past April has already led to furor and headlines worldwide, sparking a debate and generating a wide range of reactions. In the United States, the index findings have reignited the sensitive public debate over the country's healthcare system. Although the overall rank of the United States is 16th place, the health and wellness score places it 70th — despite having the highest expenditure per capita in the world on healthcare.

Paraguay, Costa Rica, Brazil, Trinidad, and Tobago already announced that they will be using the Social Progress Index as a foundation for creating their own sub-national index to measure progress and well-being. The goal is to provide a holistic framework for key stakeholders such as government, aid agencies, businesses, and civil society to identify current social needs and be able to track and measure progress for change.

In the short time since its release, the SPI has enjoyed increased attention and interest worldwide. The innovative value of the SPI is its ability to reflect the actual state of well-being in a country rather than looking at economic ability to achieve certain aspects of well-being. This positions the SPI as a possible alternative or supplement to the problematic GDP measurement. It is hoped that this measurement will contribute toward a better understanding of the quality of decision-making in the future, facilitate a better utilization of resources, and improve the ability to monitor change. ■



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OVERVIEW: ECONOMIC AND WEALTH INDICATORS

Gross domestic product (GDP) has been used for decades as the most important indicator of economic performance and prosperity. But the concept of GDP is increasingly coming under fire. Are we measuring completely irrelevant numbers? Robert F. Kennedy wisely stated that GDP "measures everything except that which is worthwhile." So which economic and wealth indicators do we have? Which are sustainable?

Gross Domestic Product

GDP measures the total value of all goods and services produced by a nation during the year. Many criticize its use because it does not distinguish whether money is spent on meaningful or meaningless items. Thus, the exploitation of resources, environmental damage, and even war and destruction appear in the statistics as supposed sources for increased wealth. On the other hand, the informal sector and subsistence farming are not measured, for example, though they are critical for a large number of poor people around the world.

Gross National Product

GNP is the total income earned by the population of a country in a given period. However, GNP tells us nothing about the unequal distribution of wealth or income distribution in a society, for example.

Per Capita Income

Per capita income is derived from dividing national income by the population in a given period. For international comparisons, per capita income is converted, often using the US dollar. However, the different purchasing powers of different currencies are considered to be insufficient.

Human Development Index

The HDI has been published since 1990 by the United Nations Development Programme. In addition to GDP, it also takes into account life expectancy, literacy, and enrollment rates. From this holistic perspective, one comes to surprising results. China, for instance, is the second-largest economy in the world after the United States, in terms of GDP, but in the Human Development Index, the country ranks only 92. In 2010 the Inequality-adjusted Human Development Index (IHDI) was introduced. The IHDI can be viewed as an index of "potential" human development if there were no inequality.

Index of Sustainable Economic Welfare and the Genuine Progress Indicator

The ISEW also considers aspects such as income distribution; unpaid domestic work; public spending on health and education; pollution; resource consumption; and the costs of climate change. ISEW was developed further into the Genuine Progress Indicator.

Happy Planet Index

The Happy Planet Index combines values for life satisfaction, life expectancy, and the size of ecological footprints. Developed by the New Economics Foundation, in collaboration with Friends of the Earth UK, in July 2006, the index is weighted to give progressively higher scores to nations with smaller ecological footprints. In 2012 the best-scoring country for the second time in a row was Costa Rica, followed by Vietnam and Colombia.

Economic Diversification Index

The Economic Diversification Index shows the structural economic weaknesses of a country. It is composed of the share of manufacturing sectors in the GDP, the number of employees in the industry, electricity consumption per capita, and export concentration as a measure of the dependence of a country on the export of goods or commodities.

Big Mac Index

The Big Mac index is a simple indicator of the purchasing power of a currency. It is used because Big Macs are sold almost everywhere in the world and have a standardized size, composition, and quality. The idea was to make exchange-rate theory a bit more digestible.

Gini Coefficient

The Gini coefficient, or Gini index, is a statistical measure developed for the representation of unequal distributions. The Gini coefficient takes a value between 0 for uniform distribution and 1 at maximum inequality. The Gini coefficient was proposed by Corrado Gini as a measure of inequality of income or wealth.

Nationaler Wohlfahrtsindex (NWI)

The NWI is based on the assumption that private consumption – the consumption of goods and services by households – contributes to the welfare of the people. Therefore, extra income for a poor household offers more benefits than extra income for a rich household. Thus, the more unequal the income distribution of a society, the lower the NWI.

Compilation: Editorial Team

SUSTAINABLE INNOVATION MANAGEMENT: TEN LESSONS FROM INNOVATION STUDIES FOR A SUSTAINABLE PARADIGM

Sustainability goals, such as those associated with the the post-2015 development agenda of the United Nations, have to be translated into new commercial products and services as well as different ways of making and delivering them that replace less-sustainable alternatives. This is the role for firms intending to profit from innovation while meeting sustainable goals. Sometimes these innovators are small entrepreneurial firms that see sustainable products as an ideal niche in which to start a new business venture. Sometimes these innovators are large firms that have identified opportunities where customers and/or technologies are new. Successful innovation at the firm level contributes cumulatively to industrial structural change in a process known as “creative destruction.” Through this process, a new paradigm can emerge, within which sustainable economic growth flourishes in an inclusive manner consistent with the goals of the United Nations post-2015 agenda.

By Dr. Paul Dewick and Jonathan Ayles

The direction and pace of this creative destruction process is difficult to foresee. What history tells us is that we can expect a wide range of novel products, new production techniques, and imaginative services to be offered to the consumer. Given these broad choices, the market acts as a selection mechanism — some alternatives will be picked and some neglected. Competitors will watch what succeeds and adapt their offerings accordingly. It is precisely from this sort of lively variety, selection environment, and serendipity that the winning outcomes emerge that will contribute to a preferred (and potentially more sustainable) paradigm. In the following 10 lessons, we consider briefly the role of innovation dynamics in facilitating a sustainable paradigm consistent with the post-2015 agenda of the United Nations. The list is not exhaustive, but it signposts some of the challenges and opportunities for sustainable innovation management.

■ **1.** A sustainable paradigm is more likely if sustainable innovation yields a profit. This is not necessarily difficult. Green goods open new markets. Sustainable raw materials can reduce costs. Diversification to novel, sustainable sources can spread risk. Developing markets for recycled products such as plastics or beverage cans, paper, or compost encourages both collection by households and processing by emerging firms confident of their supplies. For example, the Holmen Paper of Sweden sends fresh newsprint to the United Kingdom and Germany by sea. The same vessels return with waste paper and travel direct to the mill, where it is used as feedstock alongside pulp from timber. Reversing the supply chain in this way allows them to diversify their raw materials supply and cut production costs. The challenge for firms is to stimulate creative ideas and to champion and support the ideas through to implementation.



■ **2.** Necessary technologies often evolve together. Innovation needs to be managed at the component and systems levels. Carbon capture is straightforward for many industrial processes, such as oxygen steelmaking. Yet, implementation of carbon capture and storage (CCS) is anything but straightforward, requiring, for example, the development of networks, both physical (e.g., systems of pipes, storage sites) and contractual (e.g., between steel producers and infrastructure owners), as well as supportive institutions (e.g., regulation, local planning). The challenge here is to coordinate individual innovations at different levels into a sustainable architecture. Organizations emerge nationally and regionally to support coordination, often supported by government. For example, the Chinese Ministry of Science and Technology takes a lead role in China’s CCS development, including initiating CCS research and development activities, funding, and approving CCS demonstration projects. In the United States, the Department of Energy’s network of seven Regional Carbon Sequestration Partnerships heads-up national efforts to develop the infrastructure and knowledge base of CCS. In Europe a similar role is played by the European CCS Demonstration Project Network. The Global Carbon Capture and Storage Institute, based in Australia, connects organizations internationally.

■ **3.** Technological trajectories will guide the direction of progress, but trajectories will vary. Global problems often need local solutions. Technologies prosper in localities depending on sociocultural-political characteristics and access to different sorts of capital (e.g., natural, financial, human). For example, biomass potentially provides a basis for an alternative (more sustainable) system of production and distribution for (bio-)fuel and (bio-)material products. There are many alternative biomass feedstocks and associated production and processing technologies that lock in systems of production and distribution. Contrast the evolving trajectories associated with sugar cane-to-ethanol production in Brazil with the cellulosic ethanol production in the United States. Going forward as sustainable

land-use patterns are developed that balance demands for fuel, food, ecosystem services, and carbon sequestration, we can expect opportunities for different trajectories to emerge around alternative inputs to the bio-economy.

■ **4.** Innovation is not just about technological change. Business model innovation is important, too, and there is increasing adoption among small entrepreneurial and large multinational firms of alternative business models that support a value proposition aligned with sustainable goals. For example, Delphis Eco, a UK-based startup, was conceived with a business model applying “creative capitalism” to the consumption and production of ecological cleaning products. At the other end of the size spectrum, well-known examples — including Unilever’s “Sustainable Living Plan” and Marks and Spencer’s “Plan A” — demonstrate how sustainability goals can be embedded into the core business processes of large firms. More recently, the B-Team was established by a group of high-profile business leaders with the aim of catalyzing “a better way of doing business for the wellbeing of people and the planet”; an opportunity consistent with the UN post-2015 agenda.

■ **5.** Although it often lags behind technological change, institutional innovation is always necessary to support technoeconomic changes. Indeed, the co-evolution of technologies and institutions shape the pace of progress. Institutions vary greatly across countries, and their influence on innovation processes is complex, but basically there are two types of institutional innovation: formal changes such as new rules, laws, and constitutions; and informal changes such as new sociocultural norms of behavior, conventions, and self-imposed codes of conduct. Government often plays the role of institutional entrepreneur with respect to sustainable innovation, shaping the environment in which novel ideas will prosper and diffuse. Opportunities include funding basic R&D to acquire knowledge of the options; standard-setting to help designs develop and markets flourish; subsidizing capital investment otherwise handicapped by small

scale; public procurement (brokering markets); assisting job creation; education and training in novel skills; and investing in national infrastructures to support new breakthroughs. One needs only to look at how government has engaged in the above initiatives to support the adoption and diffusion of information and communication technologies, which are often thought of as being the last paradigmatic change.

■ **6.** But one can expect resistance to innovation. For example, companies handling fossil fuels have the benefit of experience, economies of scale, and many years of learning on their side. Vested interests bolster the status quo. Escaping this kind of lock-in requires knowledge of the alternatives, strong institutional support, and the flair of entrepreneurship. For renewable sources of energy, it seems the risks and costs are all on the side of innovation. But doing nothing is often the biggest risk and can create the highest cost of all. The headline argument of the Stern Review on the Economics of Climate Change (2006), for example, was that the benefits of responding earlier to climate change far outweighed the costs. Subsequent studies have supported this position, and yet, systemic inertia means that climate change remains an intractable problem.

■ **7.** Scale matters. Efficiency gains can be offset by increased production; environmental impacts must be considered in absolute rather than relative terms. Admittedly, new ideas often start small. Green innovations may prosper in protected niches. The cumulative effect of “grassroots” innovation may be considerable. But, scalable solutions are required to achieve paradigmatic change. Herein lies an opportunity for what some call “focal” organizations, which can leverage change and stimulate sustainable innovation beyond their organizational boundaries with both upstream suppliers and downstream customers. The identities of focal organizations differ across global value chains, but they are often the preserve of large branded manufacturers and retailers. For example, consider the initiatives of the US retailer Walmart, which has worked collaboratively with its diverse supply base, notably through the Sustainability Consortium, to stimulate sustainable innovation across product categories.

■ **8./9.** Innovation is risky. Foresight tools and techniques can reduce uncertainties associated with making investments in new technologies and markets. Roadmapping of new products and processes spells out the resources required to make things happen and anticipates bottlenecks. Plausible scenarios for future development help firms and policymakers “buy in” to a change of direction. Consensus can be built through broad consultations structured as Delphi exercises. In this way, foresight methods can reduce risk and are often the stimulus of innovation. Even so, given the uncertainty of innovation, events do not always materialize as planned, and serendipity plays a role, sometimes contributing to more sustainable outcomes. For example, a foresight exercise focusing on clean

machining without cutting fluid anticipated a reduction in the cost of soluble oils, an improved work environment, and cleaner swarf for recycling. Machining without lubricant had the unforeseen benefit of cleaner work pieces, which also reduced contamination in downstream processing.

■ **10.** “Challenge prizes” have a long history that illustrates how competition can spur innovation. For example, the “Longitude Act” of 1714 was an attempt by the British government to stimulate innovation to address one of the greatest challenges of that time. Through an Act of Parliament, 20,000 GBP (more than 2 million GBP today) was offered for a solution to determine accurately a ship’s position at sea “for the safety and quickness of voyages, the preservation of ships, and the lives of men...” The winner was clockmaker John Harrison and his marine chronometer. In 2014 the Longitude Prize has been reconceived with a greater public involvement and a prize of 10 million GBP to support solutions to one of today’s most pressing social and environmental issues. The shortlist for the prize resonates with the United Nations post-2015 agenda.

In conclusion, the emergence of a more sustainable paradigm is unlikely to happen by chance: Intention matters for “creative destruction.” The post-2015 development agenda of the United Nations sets out goals that firms can translate intentionally into new products, services, and processes by engaging in and with technological, organizational, and institutional innovation. Studies of innovation provide us with a dynamic lens through which we can understand better — and respond more confidently to — the challenges and opportunities associated with meeting these goals. ■



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A BIG DATA REVOLUTION FOR SUSTAINABLE DEVELOPMENT

The UN Secretary-General Ban Ki-moon’s High Level Panel has called for a “data revolution” for sustainable development; such a revolution has already arrived in the private sector. But forward-thinking companies can now lead a revolution in corporate social responsibility (CSR) to help us address some of the world’s most pressing issues.

By Robert Kirkpatrick

When thinking of engagement with the private sector, the global development community has tended principally to concentrate on volunteer time and donated goods and services, as the Overseas Development Institute has highlighted. But there is much more we can learn from the private sector about reducing vulnerability and using real-time insights to boost resilience, mitigate risk, and respond to changing global circumstances with greater agility.

The UN is in the process of updating its roadmap and agreeing upon Sustainable Development Goals to see us through to 2030. With this comes the unique opportunity to future-proof the process by using methods that may seem cutting-edge now, but will be considered anything but in a few short years.

The truth is that the data revolution that has been underway in the private sector for more than a decade. Citizens today — in both developing economies and industrialized ones — are generating a growing ocean of digital data, every minute of every day, just by going about their daily lives. As we use mobile devices to communicate, buy and sell goods, transfer money, search for information on the internet, and share our lives publicly on social networks, we leave digital trails that

private-sector firms are mining to understand the needs of their customers, track emerging market trends, and monitor their own operations in real-time.

In healthcare, in the auto industry, and even in entertainment markets, this real-time (and occasionally predictive) intelligence has fundamentally altered how companies serve their customers, leading to the emergence of new business models.

This is good news for those seeking to harness big data for social good. The development community is not starting from scratch, but rather seeking to adapt innovative tools and methods to our own needs and learning how to stay ahead of the curve in a fast-changing world.

**Big data for development:
 A new mode of public-private collaboration**

The Global Pulse initiative is a big data innovation lab for the United Nations. We see that in analyzing big data, there is potential to generate a real-time understanding of human well-being. Since our inception in 2009, we have been researching, innovating, and advocating around many of the principal challenges

“ The development community cannot tackle global 21st century problems using 20th century techniques. ”

related to transforming digital data into better outcomes for the poor, discovering new approaches, building tools, and working to demonstrate ways to overcome barriers to adoption and scale.

In time this practice will be seen as a “no brainer” for the development community: using mobile data to gain insight into urban dynamics to improve transport infrastructure in Sao Paulo or Abidjan; understanding how perceptions spread via social media in order to tailor HIV prevention campaigns; correlating dengue epidemics with data on holiday travel patterns to ramp up prevention strategies; or planning where to set up support services based on granular mapping of the routes that communities previously displaced by earthquakes used.

But unlike in the private sector, this is not a case of crunching your own numbers or using your own sales data to identify trends. A great deal of the most insightful real-time digital data is held by private-sector companies. The public sector, therefore, cannot fully exploit big data without leadership from and partnerships with the private sector. What we need is action that goes beyond corporate social responsibility. We need big data to be treated as a public good.

“Data philanthropy” is already happening

This is not just blue-skies thinking — there are companies doing this already. The Global Pulse network of partners and collaborators includes forward-thinking private-sector companies willing to engage in data philanthropy. They do this by granting access to data and technology tools to the public sector, as well as industry leaders, universities, research institutes, and nonprofit networks of researchers and innovators who are ready to utilize their skills and expertise to advance the use of data science across global development and humanitarian fields. This type of collaboration has already enabled big data innovation projects across the UN system with agencies including the World Health Organization, the United Nations Development Programme, the World Food Programme, the United Nations Children’s Fund, the Joint United Nations Programme on HIV and AIDS, and many others.

Of course, protecting individual privacy is paramount when analyzing data types of passively generated data, including social data, mobile phone data, internet search data, consumer behavior sales data, and more. Putting in place mechanisms to protect privacy based on shared guidelines, regulations, and technology will help build frameworks in which data can be safely and ethically analyzed for insights that can be used to help protect populations. The private and public sectors must come together to develop these frameworks.

Benefits for the private sector too

The “Post-2015 Data Revolution” will require much more of this type of collaboration between the public and private sectors for social good, and there are many different modalities of working together. In some cases, companies interrogate their own data, using their own data scientists for information on trends that can be used to gain intelligence to solve development and humanitarian problems.

This experience can also prove to be a positive one for the corporate data scientists. Data scientists are in short supply; they come from a generation of millennials for whom ethical behavior and good corporate CSR are extremely important. By allowing these talented young men and women some latitude to use their skills to make the world a better place, companies can boost job satisfaction and retention.

Data philanthropy is also good for business. Take, for example, any given mobile phone company operating in a fragile economy — they have an interest in customers’ general well-being and also in regional economic health. Huge spikes in food prices, displacement by floods and earthquakes, or a fast-moving disease epidemic all represent risks to the phone operator’s customer base. In this case and many others, sharing data with the public sector can help NGOs, foundations, and UN agencies in mitigating risk of harm and boosting resilience — that is good for everybody.

Ultimately, we envision a world in which the private sector routinely contributes to a real-time data commons, where

information on citizens’ well-being could be aggregated and shared, as with weather data. Yet, we recognize that companies will only participate on their own terms, and doing so must also make good business sense.

The development community cannot tackle global 21st century problems using 20th century techniques. We must find a way for different types of real-time data to be shared and analyzed in ways that do not compromise market competitiveness, and that fully protect privacy in the process.

It will take courage, imagination, new regulatory frameworks, innovative policies, and fresh thinking about how public- and private-sector partnerships can be structured — but we must bring about this new reality. ■



Robert Kirkpatrick is the director of UN Global Pulse, an initiative of the Executive Office of the United Nations Secretary-General. The Global Pulse initiative explores how digital data sources and real-time analytics technologies can help policymakers understand human well-being and emerging vulnerabilities.

UNITED NATIONS LOOKS TO SCIENTISTS USING BIG DATA TO HELP TACKLE CLIMATE CHANGE



An innovative competition aimed at stimulating the use of big data to highlight the impacts of climate change has received an overwhelming response from the global scientific community, prompting organizers of the “Big Data Climate Challenge” to announce extension of the submission deadline to June 30.

The Big Data Climate Challenge brings together the fields of Big Data and climate change for the first time in a global competition. It is being hosted by United Nations Global Pulse in support of the Secretary-General’s Climate Summit on September 23, 2014, at UN Headquarters in New York, just before the UN General Assembly.

Winners of the Challenge will get the opportunity to showcase their projects at the Climate Summit, which will be attended by heads of state, CEOs of major corporations, and civil society organizations from around the world.

The Big Data Climate Challenge seeks published or implemented projects that use Big Data to show the real-world impacts of climate change, revealing both the economic implications of climate impact and opportunities to manage climate risks.

Multidisciplinary initiatives from all relevant fields may apply, including but not limited to energy, smart cities, transportation, agriculture and food systems, recycling, material sciences, risk management, architecture and design, finance, and carbon markets.

A global Advisory Board of high-profile experts in climate science, data, and sustainable development will help evaluate submissions. The Board includes advisors from Skoll Global, African Development Bank, Indian Institute of Science, MIT Senseable Cities Lab, and World Meteorological Organization. Additional advisors from UN agencies including World Food Programme, UN Environment Programme, and UN Population Fund will provide further technical support.

“We’re confident that data-driven climate solutions exist around the globe — we just have to find them. And the Big Data Climate Challenge seeks to unearth and highlight the best examples out there,” says UN Global Pulse Chief Scientist Dr. Miguel Luengo-Oroz. “The impressive submissions that the Challenge has already received demonstrate both the relevance and importance of bringing the Big Data and climate communities together.”

The Big Data Climate Challenge represents an opportunity for scientists and researchers to share their work on an international stage, engaging world leaders, climate experts, and the general public to strengthen global resilience and drive climate action.

OPERATIONALIZING SUSTAINABILITY TARGETS:

AN INTRODUCTION TO THE SUSTAINABLE VALUE APPROACH

By Prof. Dr. Frank Figge, Dr. Tobias Hahn, Dr. Ralf Barkemeyer, and Dr. Andrea Liesen

Over the last decades, sustainability has been accepted by policymakers and corporate managers alike as a relevant and legitimate goal. In this context, the current UN-level efforts to formulate sustainable development goals (SDGs) can be expected to further consolidate the sustainability agenda and to help relevant actors address today's key global sustainability challenges. From a corporate perspective, a universally acknowledged set of SDGs will provide valuable pointers regarding areas that need to be prioritized within the wide range of sustainability-related aspects. However, in order to translate these high-level SDGs into organizational practice, corporate decision-makers require tools for operationalizing sustainability performance and sustainability targets.

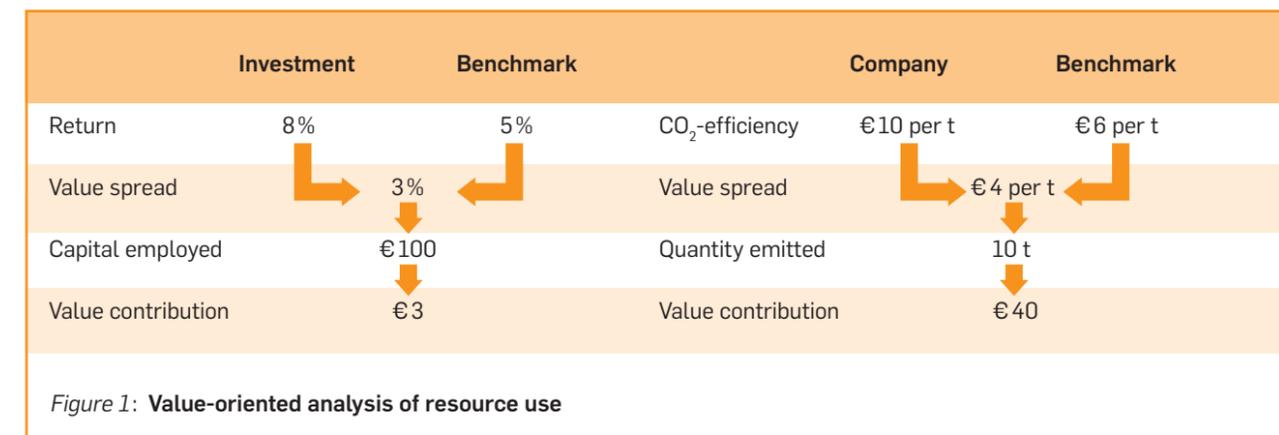
Corporate decision-making tools are dominated by a financial logic today. The Sustainable Value Approach presented here offers a tool that extends the currently dominant value-based management logic to the assessment of the use of economic, environmental, and social resources. In this way, it offers corporate decision-makers a tool to translate and operationalize sustainability performance and targets into monetary terms based on a logic that is widely used and understood in companies today. We briefly explain the logic and the application of the Sustainable Value Approach, illustrate it with a practical example from the car industry, and discuss its explanatory power.

Measuring and managing sustainability performance

The Sustainable Value Approach allows for measuring and managing corporate sustainability performance on the basis of quantifiable sustainability metrics. It does so in a way that companies are used to – it focuses on value creation.

According to the logic of the approach, a company creates sustainable value when it generates more returns with a given set of environmental, social, and economic resources than a benchmark. Depending on the angle of the analysis, this benchmark can be an industry average or a breakdown of SDGs to corporate reduction targets.

The Sustainable Value Approach is based on a fundamental principle of financial economics: Companies create value whenever they use economic resources more efficiently than a benchmark. In the financial market, this valuation methodology has long been practiced under the banner of “opportunity costs.” From a sustainability perspective, the valuation of a company's performance cannot be limited to the use of economic resources, but must also take into account environmental and social resources. Interestingly, prior to the Sustainable Value Approach, no other method had attempted to assess the use of environmental and social resources based on opportunity costs, even though this had already been suggested 120 years ago. The example illustrated in Figure 1 can explain the underlying opportunity-cost logic of the Sustainable Value Approach. Let us assume an investment, such as a share, produces an annual return of 8 percent. To assess this performance, we need to compare it with a benchmark – generally, the market average – that defines the opportunity cost, that is, the forgone return of the investment. Assuming that the market (e.g., the DAX) has only produced an annual return of 5 percent, the investment has achieved an additional return of 3 percent, also known as the value spread. To determine how much value has been generated, this value spread is multiplied by the capital employed. Assuming an investment of €100, the value contribution comes to €3 (see Figure 1).



The Sustainable Value Approach extends this logic to the use of environmental and social resources. To calculate sustainable value, a company's resource-efficiency is compared with that of the benchmark. A company that emits 10 tons (t) of CO₂ to generate a return of €100 has a CO₂ efficiency of €10 per ton of CO₂. If the benchmark only generates a €6 return per ton of CO₂, for example, the company earns a return of €4 more per ton of CO₂ than the benchmark. With a total emission of 10 tons of CO₂, a company therefore generates value of €40. To achieve a more sustainable economy, environmental, social, and economic resources should be used where they create the highest value. Using the Sustainable Value Approach, it can be determined where the use of which resources creates the highest value.

Calculating sustainable value

Sustainable value is calculated in five steps. Each step provides the answer to a specific question that is relevant for the assessment of a company's sustainable performance.

- (1) How efficiently does a company use its resources?
- (2) How efficiently does the benchmark use the resources?
- (3) Does the company use its resources more efficiently than the benchmark?
- (4) Which resources are used by the company in a value-creating way?
- (5) How much sustainable value does a company create?

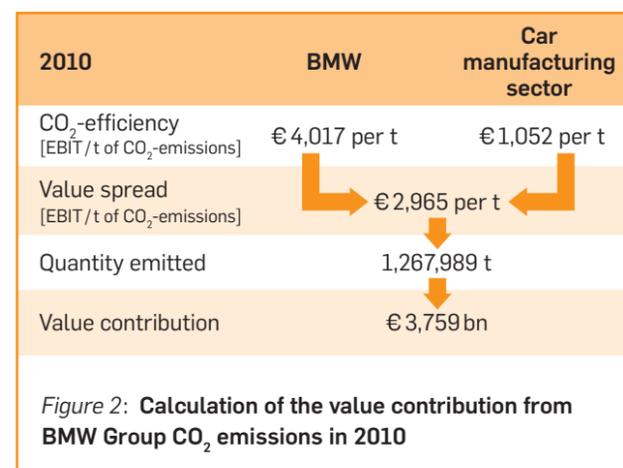
To show one possible application of the Sustainable Value Approach, we illustrate these five steps using the example of the sustainability performance of the BMW Group in 2010 and the automobile sector as a benchmark.

Step 1: How efficiently does a company use its resources?
The purpose of the first step is to establish how efficiently the company uses its various economic, environmental, and social resources. To this end, the quantity of resources used is compared with the return generated by the company. In our example, the earnings before interest and taxes (EBIT) is used as a return figure and divided by the quantity of resources used. In 2010 the BMW Group, for example, generated an EBIT of €4,017 per ton of CO₂ emissions emitted. The CO₂ efficiency of the BMW Group in 2010 therefore came to €4,017/t CO₂. The use of return figures other than EBIT that cover a broader economic contribution, such as gross value added, is possible.

Step 2: How efficiently does the benchmark use the resources?
The second step of the analysis calculates how efficiently the benchmark uses the relevant economic, environmental, and social resources. First of all, the benchmark has to be defined. In our example, we use the global automobile industry as the benchmark when assessing the sustainability performance of BMW. More specifically, we use the weighted average efficiency of the use of resources by all automobile manufacturers studied. The average EBIT that the carmakers earn per unit of resource used is then calculated for all resources considered. The CO₂ efficiency of the automobile industry in 2010 came to €1,052 EBIT/t CO₂. The use of benchmarks other than industry averages, for example political targets, are possible.

Step 3: Does the company use its resources more efficiently than the benchmark?
This step compares the efficiency of the company with the efficiency of the benchmark. To this end, the benchmark efficiency is deducted from the company efficiency. The resulting value spread describes how much more (or less) return per unit of resource the company produces compared with the benchmark. The value spread is calculated for each resource examined. This establishes whether the company uses the various resources more efficiently than the bench-

mark. For our example, the comparison of the CO₂ efficiency of the BMW Group with the rest of the industry shows that the BMW Group uses this resource more efficiently. It has a positive value spread of roughly €2,965/t CO₂. In other words, the BMW Group generates €2,965 more EBIT per ton of CO₂ than the industry average (see Figure 2).



■ *Step 4: Which resources are used by the company in a value-creating way?*

The value spread calculated in the previous step identifies how much more (or less) return per unit of resource consumed the company makes compared to the benchmark. In this fourth step, the value contribution generated by the entire resource use within the company is calculated. To this end, the relevant quantity of resources used is multiplied with the appropriate value spread. The result shows how much more or less of a return the company creates with the quantity of resources used compared with the benchmark. In 2010, for example, the BMW Group emitted 1,267,989 tons of CO₂. Having calculated the value spreads in step three, we know that the BMW Group creates roughly €2,965 more EBIT per ton than the industry average. If we multiply the value spread with the total quantity of CO₂ emitted, the resulting value contribution comes to approximately €3.8 billion. This represents how much more of a return the BMW Group generated with its CO₂ emissions as compared to the average manufacturer (see Figure 2).

■ *Step 5: How much sustainable value does a company create?*

In the previous step, the value contribution of each resource was established. In this last step, we now determine how much value is being created in using the entire bundle of economic, environmental, and social resources. In previous steps, BMW's entire EBIT was attributed to the use of a single resource. Obviously, this does not reflect the real situation, since the

return is only produced once, through the use of the entire resource bundle. Simply adding up the value contributions from the different resources would incorrectly count the EBIT of the firm more than once. When calculating the sustainable value, the sum of the value contributions is thus divided by the number of resources considered. Figure 3 illustrates the five calculation steps. It also shows that the BMW Group generated a sustainable value of roughly €3.6 billion in 2010. The sustainable value expresses how much more of a return BMW has created with the bundle of resources in question in 2010, as compared to other industry peers.

Making allowances for company size

In financial analysis, larger companies are generally expected to generate higher profits, sales, and cash flows. The same problem arises when attempting to compare the sustainable value of different companies: Bigger companies generally use greater quantities of resources and therefore tend to create more (positive or negative) sustainable value. As with the financial analysis method, allowances for the company's size therefore need to be made when comparing the sustainable value of different companies.

Financial analysis compares performance parameters, such as profit or cash flow, with other indicators that reflect the size of the company. Profit, for example, is frequently assessed in relation to capital employed or sales. Following this logic, sustainable value can be related to other figures that represent the size of the company, such as sales (sustainable value margin) or the opportunity cost of resource use (return-to-cost ratio) to give an indication of sustainability performance that does not depend on company size.

Explanatory power

In our example using BMW, we can see that the company used every one of the analyzed economic, environmental, and social resources more efficiently than the benchmark, with sulfur oxide emissions being used the most efficiently and total assets the least efficiently. For other automobile companies that formed part of the analysis, sustainable value provides an indication of which economic, environmental, and social resources are used in a value-creating way, and which are not. The approach can thus pinpoint companies toward strengths and weaknesses in their sustainability performance. It can also be used to benchmark future investments or projects against a company's current sustainability performance or sustainability targets in order to identify those projects and investments that have the most positive effect on sustainability performance.

In summary, the Sustainable Value Approach provides a monetary measure of how efficiently an individual company does business compared with a benchmark. The results,

	Amount of resources used	Efficiency of BMW Group	Efficiency of car sector	Value contribution
Total assets	108,867,000,000	4.68 %	4.08 %	€ 651,555,392
CO ₂ -emissions	1,267,989 t	€ 4,017 per t	€ 1,052 per t	€ 3,759,450,938
NO _x -emissions	457 t	€ 11,146,608 per t	€ 2,037,052 per t	€ 4,163,067,423
SO _x -emissions	8 t	€ 636,750,000 per t	€ 4,492,355 per t	€ 5,058,061,163
VOC-emissions	2,047 t	€ 2,488,520 per t	€ 285,611 per t	€ 4,509,354,993
Waste generated	131,742 t	€ 38,666 per t	€ 5,646 per t	€ 4,350,153,318
Water use	3,205,191 m ³	€ 1,589 per m ³	€ 186 per m ³	€ 4,497,254,400
Work accidents	1,045	€ 4,874,641 per nb	€ 2,728,297 per nb	€ 2,242,929,349
Employees	95,453	€ 53,367 per nb	€ 23,327 per nb	€ 2,867,382,018
				€ 3,566,578,777

Figure 3: Sustainable value of the BMW Group in 2010

however, do not indicate whether the benchmark — in our example, the automobile industry on average — as a whole makes a contribution to the sustainable use of resources and promotes sustainable development. Although methodologically possible, our example of BMW does not deal with aspects outside the company. The calculation of sustainable value therefore does not take into consideration factors such as the performance of suppliers or product features. Also, applications of the Sustainable Value Approach are limited to sustainability aspects that can be reasonably quantified. In the context of the SDGs, a range of corporate impacts on global sustainability challenges can be quantified, measured, and managed directly at the level of the company. For example, many companies are already reporting on their greenhouse gas performance, water use, or waste generation. However, in other cases, it is more challenging to attribute global problems such as poverty or complex ecosystem services to the level of one individual actor, in turn making it more difficult for companies to manage and report their impacts in a meaningful way. While the formulation of SDGs is highly appreciated and a clear step forward in this context, additional guidance will be needed for companies on how to translate these macro-level goals and targets to the company level.

Furthermore, it should be noted that sustainable value does not attempt to express a company's entire commitment to sustainability in a single ratio. Qualitative sustainability

aspects, many of which are covered by SDGs, should also be managed with qualitative instruments. For those sustainability aspects that can be quantified, the Sustainable Value Approach provides a link between sustainability and the value-oriented logic that is common in management practice. Therefore, the biggest advantage of the Sustainable Value Approach is that it allows for the use of environmental and social resources to be assessed in the same way as the use of economic resources — and expresses the results in a single monetary figure. The Sustainable Value Approach is therefore a powerful tool for measuring and managing corporate sustainability performance, as it expresses sustainability performance in the language and logic of mainstream management. ■

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 Prof. Dr. Frank Figge and Dr. Tobias Hahn are both professors of Sustainable Development and Corporate Social Responsibility at KEDGE Business School, France. Both have been early developers of the Sustainable Value approach.

Dr. Ralf Barkemeyer (University of Leeds, UK) and Dr. Andrea Liesen (Umea University, Sweden) joined the Sustainable Value team to further develop the approach into a tool for strategic and operative sustainability management.

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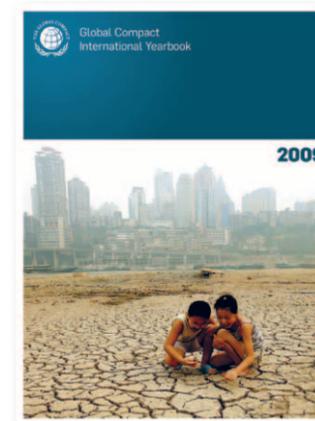
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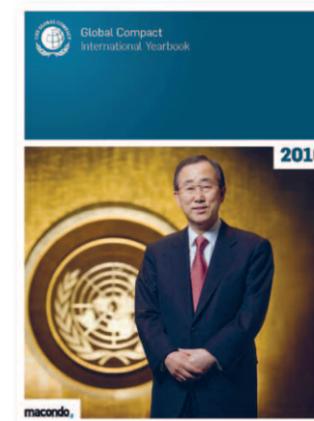
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THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

At the core of the Global Compact initiative are 10 principles for human rights, labour standards, the environment and eliminating corruption.

The Global Compact calls upon all companies to recognise these principles and to take steps to put them into effect.

HUMAN RIGHTS

- 1 *Principle 1:* Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2 *Principle 2:* make sure that they are not complicit in human rights abuses.

LABOUR STANDARDS

- 3 *Principle 3:* Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4 *Principle 4:* the elimination of all forms of forced and compulsory labour;
- 5 *Principle 5:* the effective abolition of child labour; and
- 6 *Principle 6:* the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- 7 *Principle 7:* Businesses should support a precautionary approach to environmental challenges;
- 8 *Principle 8:* undertake initiatives to promote greater environmental responsibility; and
- 9 *Principle 9:* encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- 10 *Principle 10:* Businesses should work against corruption in all its forms, including extortion and bribery.