



# Leading the Way: UN Global Compact Participants and CSR Performance

*An EcoVadis Study - 2012*



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# Table of Contents

- Executive Summary .....3
- Introduction.....4
  - 1. The EcoVadis 2011 UN Global Compact study..... 4**
  - 2. The Methodological Framework of the EcoVadis UN Global Compact Study..... 5**
- I. General Findings on Environment, Labor Practice and Human Right and Fair Operating Practice Scores ..... 6
  - A. Environment and Labor Practices..... 6**
  - B. Fair Business Practices Score Comparisons ..... 7**
- II. Sustainable Supply Chain Performance Scores.....8
- III. Variations between industry sectors among Global Compact participants ...9
- CONCLUSIONS .....10

# Executive Summary

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This study cross-examines how participants in the United Nations Global Compact compare to non-participants in regards to Corporate Social Responsible (CSR) performance. The UN Global Compact asks companies to, “embrace, support and enact, within their sphere of influence, a set of core values” as outlined by the 10 Principles.

**Out of a sample of approximately 3,500 companies, there were 511 Global Compact participants identified which were ranked on their CSR performance as measured by the EcoVadis methodology.** Key findings are as follows:

**1.) On average, Global Compact participants have more robust Corporate Social Responsibility (CSR) management systems.**

The study reveals that Global Compact participants demonstrate a more proactive sustainable management approach, especially on environment and labor practices. Global Compact participants are leading the way with 85% of companies obtaining a global score higher than 5/10, while this is true for only 39% of companies that do not participate in the Global Compact.

**2.) ...but being a participant of Global Compact is not a guarantee of an effective CSR management system.**

Across all themes (environment, labor, business ethics, and sustainable procurement) approximately 15% of Global Compact participants have a below average CSR management system in place. When we look at specific areas such as “Labor & Human Rights in emerging markets”, this number increases to 40%. Such companies are considered as being exposed to medium or high risk due to their overall lack of CSR management capabilities.

*The UNGC is often criticized for being a “declarative” instrument, and for its lack of verification mechanisms in participants CSR practices. While progress has been made in the past years (i.e. mandatory disclosure through the COP) we believe that the UNGC should address this key weakness to improve confidence in the initiative.*

**3.) And the maturity in Sustainable Procurement issues remains low.**

Since its launch in 2000, 6000 business participants have joined UNGC, which can be seen as a success... or as a failure if we compare it with the 1 million of parent corporations<sup>1</sup> and foreign affiliates or 87 million of SMEs<sup>2</sup> in the world. In the last CEO Summit, the UNGC called for members to cascade UNGC requirements throughout their Supply Chain, in order to create a spillover effect which could significantly increase the adoption of the UNGC principles (such as the program which was set up by Schneider Electric in 2009-2011 to encourage UNGC adoption by suppliers). However our study reveals that over 50% of UNGC participants have insufficient Sustainable Procurement capabilities (81% in developing countries, 50% in OECD countries and 50% for companies with more than 1000 employees).

***Without strong Sustainable Procurement systems companies will not be able to drive adoption of Sustainability practices in their Supply Chain. The UNGC could play a key role in advocating best practices in this area in order to increase adoption rates.***

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<sup>1</sup> World Investment Report, Non-equity Modes OF International Production and Development 2011 (UNCTAD, Annex table 34. , June 2011, Available online [here](#))

<sup>2</sup> cited in *Contemporary Management Research* ( Vol. 6, N° 4, December 2010, p.293)

# Introduction

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Companies are becoming increasingly active in pursuing socially responsible business practices to mitigate risks related to reputational damage, negative investor perceptions, legal action and brand devaluation. In tandem with this, there have been a growing number of social reporting requirements driven by regulatory bodies, stock exchanges, market forces and governments.

## 1. The EcoVadis 2011 U.N. Global Compact study

The key objectives of this study are to:

- Identify to which extent Global Compact participation translates into tangible CSR actions that have a positive impact on CSR performance.
- Identify whether there is a correlation between EcoVadis CSR scores and participation in the U.N. Global Compact.
- Encourage further research into the extent to which CSR performance is significantly impacted by participation in the U.N. Global Compact.

### UN Global Compact's Ten Principles

#### HUMAN RIGHTS

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

#### LABOR

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

#### ENVIRONMENT

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

#### ANTI-CORRUPTION

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

## 2. The Methodological Framework of the EcoVadis UN Global Compact Study

Firstly, this section aims to outline the EcoVadis rating methodology, and secondly to provide an explanation of the underlying assumptions utilized for this sample set.

### *The EcoVadis Rating Methodology*

This study is based on the EcoVadis rating methodology, which focuses on four core themes. These are:

- The Environment
- Labor practices & human rights
- Business ethics
- Sustainable procurement.

There are a total of 21 CSR criteria across the four themes as outlined in the diagram below.



Each of the four themes is assessed through seven management indicators: policies, endorsement of international CSR initiatives, implementation, roll-out and coverage, certifications, key performance indicator reporting and 360° watch (e.g. reputational news, litigation, sanctions, fines). The EcoVadis scoring scale ranges from one to ten. A score of five is the minimum threshold for companies' CSR management systems to be considered as "under control".

In terms of sector coverage, the EcoVadis rating system encompasses more than 120 industry sectors. Weightings are customized according to industry sector, size and country risk exposure.

### *Sample Framework*

In conjunction with the methodology, there are a number of areas that are important to convey before embarking on an explanation of the key findings within this study. These are as follows:

- Out of a sample of approximately 3,500 companies, there were 511 Global Compact participants. Their performance was benchmarked against their peers who were not GC participants.
- Scoring is based on the EcoVadis rating methodology, as outlined above and looks at data collated between February 2009 and May 2011.
- The sample set of companies utilized for the study had an "active" participant status only at the time they were assessed by the EcoVadis analyst team. This may have changed over time.<sup>3</sup>
- Our research made the assumption that a subsidiary of a parent company, which is a Global Compact participant, is also a participant.
- The sample of Global Compact participants evaluated may not be representative of the actual GC participant distribution. The main differences are as follows:
  - ✓ The concentration of large companies is high in the sample: 67% are large companies with above 1,000 employees.
  - ✓ The sector distribution of companies for the sample is as follows: 47% of companies in the sample are in the manufacturing sector (chemicals, paper, electrical equipment, computer equipment), followed by 10.4% of companies in the 'Administrative and support service activities', 10% in 'Information and communication', 7% in 'Wholesale and retail trade', and 5% in 'Transportation' category.

<sup>3</sup> A business participant that submits a timely CSR report called the "Communication on Progress" (COP), which meets all the Global Compact requirements, is categorized as "GC Active". Conversely, "non-communicating" participants are those which do not respect the required deadlines (a COP must be submitted within 12 months after the joining date and every 12 months thereafter); in addition their reporting does not live up to the standard content requirements (CEO statement, description of actions on the four issue areas, and a measurement of outcomes) set by the U.N. Global Compact.

# I. General Findings on Environment, Labor Practice and Human Right and Fair Operating Practice Scores

Irrespective of their size, sector or geography, our research reflects that non-GC participants (average global score of 4.2 out of 10) score less than their GC counterparts (average global score of 5.6). Hence the study confirms that Global Compact participants are leading the way with 85% of companies obtaining a global score ranging from 5 to 8, while this is true for only 39% of companies that do not participate in the Global Compact.

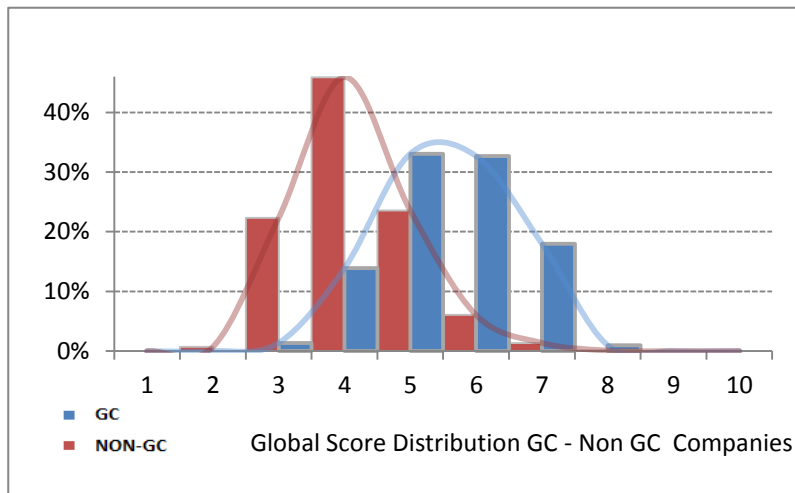


Chart. 1. Overall scores

## A. Environment and Labor Practices

According to BSR/GlobeScan State of Sustainable Business Poll 2011, climate change, labor and human rights continue to be a priority for two thirds of responding companies<sup>4</sup>. Our research confirms that Global Compact participants demonstrate a more proactive sustainable management approach, especially on environment and labor practices.

- This trend was reflected when comparing scores during the study, which shows GC participants leading on environmental and social issues. However, while the maturity gap between GC and non GC participants is wider on environmental performance, it progressively narrows down on social issues, followed by fair business practices. The lowest scores on supply chain performance illustrate a lack of maturity on sustainable supply chain management for both categories of companies. Charts 2 to 5 below highlight those key trends:

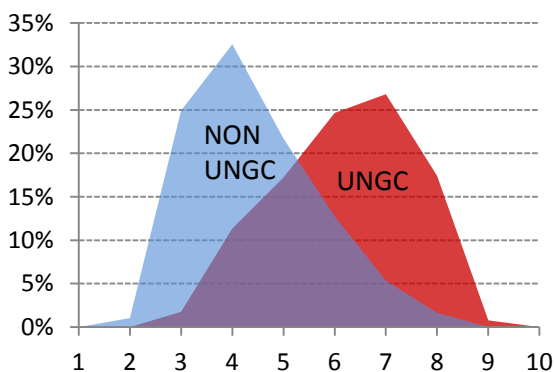


Chart 2. Score Distribution - Environment

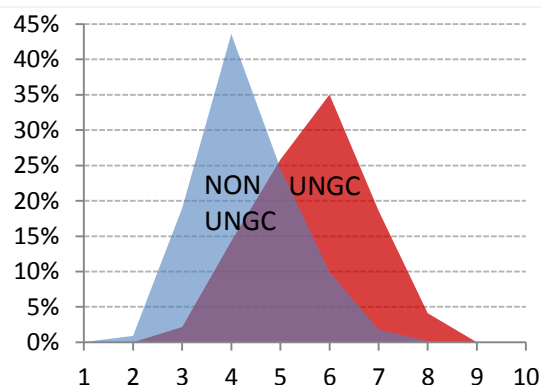


Chart 3. Score Distribution Labor Practices and Human Rights

<sup>4</sup> BSR/GlobeScan

[http://www.bsr.org/files/BSR\\_GlobeScan\\_State\\_of\\_Sustainable\\_Business\\_Poll\\_2011\\_Fact\\_Sheet.pdf](http://www.bsr.org/files/BSR_GlobeScan_State_of_Sustainable_Business_Poll_2011_Fact_Sheet.pdf)

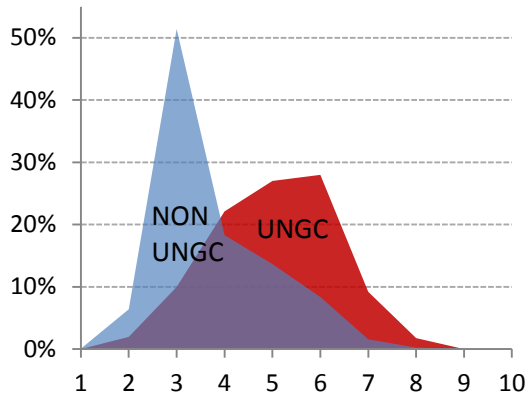


Chart 4. Score Distribution - Fair Business Practices

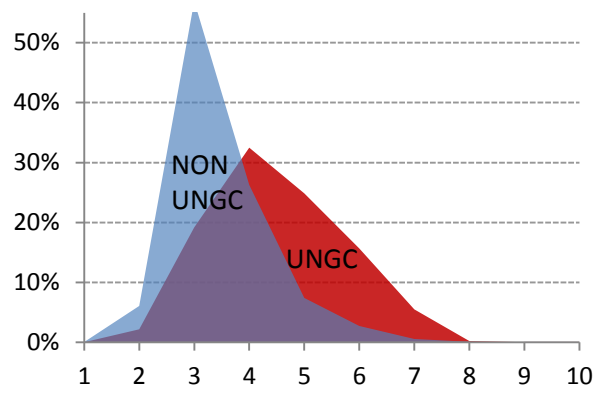


Chart 5. Score Distribution - Sustainable Procurement

## B. Fair Business Practices Score Comparisons

Fair business practices continue to be an area where awareness amongst companies on how to develop robust strategies and due diligence systems is in its infancy. While many businesses have codes of ethics, the information outlined is only of value if its intent is reflected in implementation actions and associated reporting elements. There are numerous notable examples of poor translation into practice (e.g. bribery, corruption scandals).

Our research shows GC participants are more advanced on this topic than their peers; however performance among GC participants still lags far behind in comparison to environment and social issues.

- The data reveals a significant gap on fair business practices scores between GC and non GC participants. **More specifically, approximately two thirds of GC companies meet at least the minimum standards<sup>5</sup> set by EcoVadis on fair business practices<sup>6</sup>, whereas this only is true for 24% of non GC participants (see Chart 4 p.5).** This could be partially attributable to the fact that the GC sample over-represents large companies (67%), who have the ability to dedicate a higher proportion of resources into more elaborated management systems on fair business policies. Size having an impact on performance is also supported by the observation that two thirds of SME Global Compact participants in the sample do not reach the minimum standard set by EcoVadis on fair business practices.
- Global Compact participants are relatively less prepared to tackle issues related to the 10<sup>th</sup> Principle on Anti-corruption, while 34% still score below 4<sup>7</sup>.** This observation is similar to the conclusion of the Global Compact's Implementation Survey 2010, which states "for three consecutive years, results clearly and consistently show that implementation of labor and environment issues far exceeds work around (...) anti-corruption"<sup>8</sup>.

<sup>5</sup> Minimum standards defined by EcoVadis

<sup>6</sup> Scores between 5 and beyond

<sup>7</sup> Principle 10 : Businesses should work against corruption in all forms, including extortion and bribery

<sup>8</sup> UN Global Compact Annual Review 2010 p.21

## II. Sustainable Supply Chain Performance Scores

Sustainable procurement has grown in importance in recent years globally. This is most notable in developing countries, where brand reputation and cost efficiencies can be a driving factor behind sustainable procurement initiatives. For example, negative reputational damage from sourcing goods from suppliers with poor labor conditions can significantly affect profit margins. However, despite the increasing importance of sustainable procurement, many companies are still laggards rather than leaders in this area. Our research confirms this:

- **Irrespective of their size, location or sector, 54% of GC participants have insufficient management capabilities to translate policies into practical implementation measures within the value chain, according to EcoVadis' assessment.** This represents a significant contrast from the self-assessment of the U.N. Global Compact Implementation Survey 2010, which reflects that only 18% of Global Compact participants "report not taking sustainability issues into account at all with respect to suppliers."<sup>9</sup>

Other notable trends that can be derived from a closer analysis of the supply chain scores are as follows:

- As expected there is evidence of a **maturity gap between Global Compact participants from OECD and developing countries** on sustainable supply chain management as shown in Chart 8. **More than 50% of Global Compact companies headquartered in OECD countries or large companies (with more than 1000 employees)** still do not reach the standard set by EcoVadis for an acceptable sustainable supply chain management system. Furthermore, a high percentage, **81% of GC participants from developing countries** do not meet EcoVadis' criteria with respect to minimum sustainable supply chain management standards.
- The assessment of scores on sustainable procurement<sup>10</sup> in this study clearly reveals a narrow gap between average supply chain scores for GC and non GC companies. Supply chain scores are similar and only show a 1 point difference of mean scores between GC and non GC participants. By comparison this gap is 1.8 times larger on the environment theme. Chart 5 (page 7) illustrates this pattern of convergence between the two sets of companies. Interestingly, the same trend of converging scores between GC and non GC participants can also be observed for companies headquartered in OECD countries<sup>11</sup>. This conclusion falls into line with supply chain scores in developing countries, as outlined in chart 9<sup>12</sup>.

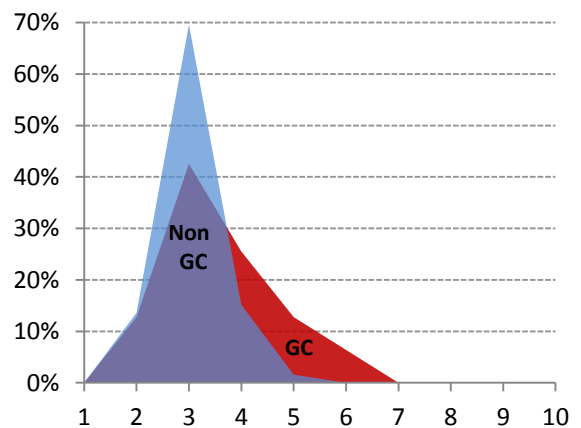


Chart 8. Companies Headquartered in Developing countries - Sustainable Supply Chain Score Distribution

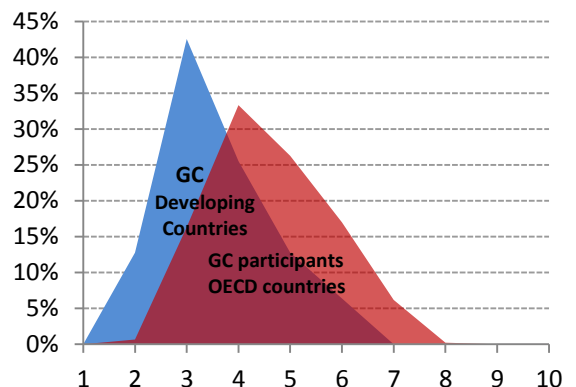


Chart 9. Developing countries | OECD - Global Compact participants - Supply Chain Scores

<sup>9</sup> Idem p.29

<sup>10</sup> The EcoVadis assessment methodology on sustainable procurement looks at environmental and social criteria across 7 management indicators and utilizes more than 30 qualitative and quantitative criteria for its supply chain management screening.

<sup>11</sup> Same 1 point difference of mean scores between GC and non GC participants

<sup>12</sup> Slight 0.13 difference between score means of GC and non GC participants



### III. Variations between industry sectors among Global Compact participants

Our research highlights **significant score variations between sectors and in the level of integration on sustainability amongst Global Compact participants**. This is most notable on the environment. Key findings include:

- On the environment theme, Manufacturing and Transportation has the highest scores. These two sectors have significant environmental footprints and are under pressure from regulators to implement advanced environment management systems.
- GC participant scores applied on the supply chain reflect an interesting trend of underperformance for key sectors with high risk exposure. For instance, Construction, Wholesale and Manufacturing have a score below the minimal threshold set by EcoVadis on sustainable procurement, whereas only a set of companies from one sector 'Accommodation and Food Services' reaches an acceptable level.

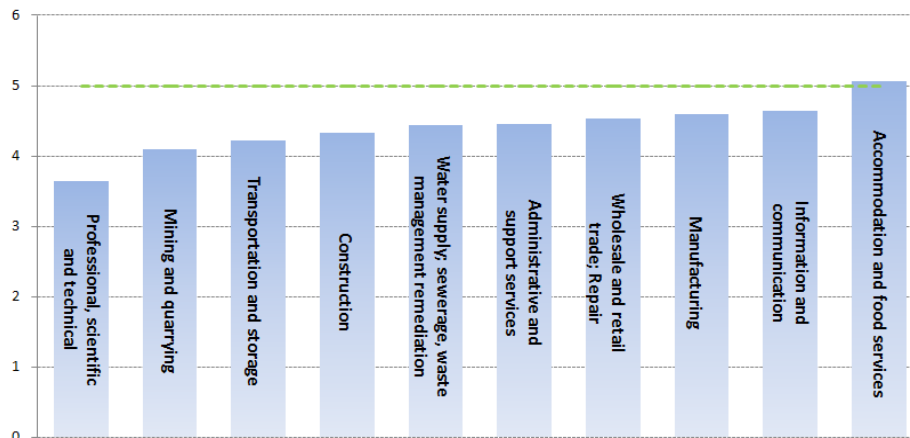


Chart. 11 Average Sustainable Procurement Scores by Sector - UNGC participants

# CONCLUSIONS

The UN Global Compact is a strategic initiative adopted by a growing number of companies. However, more research such as the annual Global Compact Implementation Survey is required on how to measure the extent to which companies embed the 10 principles into tangible concrete measures and actual performance. The research should go beyond company self-assessment or declarations and strive to analyze core management practices.

Some notable findings in our study include:

- Across all themes more than 15% of GC participants have an overall score below the minimum threshold set by EcoVadis. Those participants are considered as being exposed to medium or high risk due to their overall lack of CSR management capabilities.
- 54% of GC participants have insufficient management capabilities on sustainable supply chain according to EcoVadis criteria (81% in developing countries, 50% in OECD countries and 50% for large companies with more than 1000 employees).
- Despite an overall trend towards reflecting that sustainability is an opportunity for value creation and business success, there is a high variation of maturity levels between Global Compact participants from OECD and developing countries on the issue of sustainable supply chain management.

This research is a first step towards an assessment of Global Compact participants' performance on CSR issues. It aims to stimulate further research, dialogue and innovation towards an effective implementation of the UNGC principles and goals.

Will the next ten years result in a growing number of companies who are GC signatories embedding policies into practical implementation measures? Increasing legislation as well as heightened awareness amongst consumers, the media and shareholders, makes this probability high.

Strategies that can result in GC signatories embedding policies into practical measures that will have a positive impact on performance include:

- A strategic focus by the Global Compact on companies that have the potential to become leaders through the Global Compact LEAD program for instance, with a particular focus in developing countries.
- Innovative solutions to integrate the 10 Principles within concrete sustainable procurement processes and operations.
- The further promotion of best practices on the Global Compact website, amongst local networks on such issues as anti-corruption where performance remains weak.
- Awareness-raising on practical sustainable procurement approaches and operational supply chain management to guide companies into incorporating the 10 Principles within their activities both upstream and downstream. This has the potential to have a spill-over effect in the value chain.