

## **Bringing Multinational Corporations into the Environmental Treaty-Making Process Through the UN Global Compact**

**Shauna J. Sadowski**

Of the more than 500 existing global and regional environmental treaties, more than half have been adopted in the past 25 years. Even so, biosphere conditions continue to worsen, including increases in the number of threatened species, greenhouse gas emissions, and hazardous waste generation (Nowlan and Rolfe 2003). The high number of treaties has led to treaty congestion, “treaty fatigue,” and recognition that reform must take place to encourage positive change and genuine results.

In attempting to uncover the disconnect between the persistence of environmental problems and the measures applied through international treaties, one might question the strength of the written treaties, the lack of compliance and enforcement at the domestic regulatory level, or both. The making of more treaties is clearly not the solution. However, it may be useful to focus attention on which major players must be activated to ensure treaty compliance. This paper contends that multinational corporations (MNCs) can play an important role in environmental treaty making, as their growing importance in industrial development, and thus in environmental impacts, are increasingly important for both developing and developed nations.

This paper begins by discussing the increasingly important role of MNCs in global affairs, their impacts on the environment, and their responses to date. While the participation of MNCs in international environmental treaties is controversial, this paper asserts that their involvement is inevitable, given their increased power and their access to resources. The objective here is to develop a model to incorporate MNCs into the international environmental treaty-making process. The model provides checks and balances in the system, while also creating incentives for participation and collaboration among the corporate players.

### **Current Role of MNCs**

The growth and international economic dominance of multinational corporations is drawing increased scrutiny as their power becomes more significant. As of 2003, more than 65,000 multinational corporations were doing business and controlling assets in more than one country (World Resources 2003). MNCs increased their number of exports from 25 percent in the 1980s to one-third in the 1990s (Morgera 2004). MNCs participate in over 60 percent of world trade, playing a significant role in production, distribution, and sale of products from developing and developed countries alike. Sales of the largest 100 multinational corporations increased from \$3.2 trillion in 1990 to nearly \$4.8 trillion in 2000 (World Resources 2003). Furthermore, of the world’s 15 largest budgets, six are governmental and nine are corporate; each of the top 15 MNCs has a budget greater than the GDPs of at least 120 countries (Morgera 2004).

The increasing power of the MNC is also represented through foreign direct investment (FDI). Cross-border mergers and acquisitions, in which a foreign corporation acquires more

than 10 percent control of a domestic enterprise, increased from \$94 million to \$866 billion between 1996 and 2000 (World Resources 2003). This has a particularly profound effect on developing countries in which foreign direct investment (FDI) constitutes a country's largest source of external finance (Morgera 2004). In developing countries, cross-border mergers and acquisitions increased by 50 percent from 1995 to 1999 (World Resources 2003).

With the ultimate goal of financial profits, corporations push for international competitiveness, driving governments to deregulate markets, privatize public utilities, and reduce the public tax burden (Marsden 2004). While none of these actions is inherently wrong, the open market has externalized environmental and social effects. Research indicates that MNCs are responsible for more than 50 percent of global greenhouse gas emissions (Morgera 2004). They are also the primary players in extracting renewable and nonrenewable resources such as fossil fuels, metals, and forest products.

However, MNCs are also principal technology innovators, the key to environmental improvements. Echoed by corporate strategist Stuart Hart (1997), Ehrlich and Holden (1971) and Barry Commoner (1972) stated in the 1970s that environmental burden is a function of three factors: population, affluence, and technology. Achieving sustainability requires the reduction of at least one of these factors. The authors found that the likelihood of a decreasing population is low and that decreasing affluence, defined as per capita economic activity or wealth, is undesirable, which thus places technology as the primary link to sustainable change (Hart 1997). While the assumptions underlying this formulation have been challenged, it is clear that technologies for impact mitigation and impact reduction will have an important role in a sustainable future. MNCs are a significant means by which technology innovation can feasibly be converted into practice.

In recent years the number of certifications and standards relating to environmental and social issues has increased significantly. Some companies have developed public disclosure mechanisms to demonstrate to consumers their commitment to environmental problems. Efforts tend to fall into three main categories: 1) government-mandated pollution disclosure programs, such as the Toxics Release Inventory in the US, whereby companies located in the United States must publicize their pollutant and waste discharges; 2) voluntary corporate disclosure initiatives, such as industry-wide codes of conduct; and 3) consumer- and investor-based efforts, such as socially responsible investing, eco-labels, and product certifications (World Resources 2003).

Although universal global standards are not common, national and regional standards have provided guidance for some environmental standards in business:

- *UN Global Compact* – Signed in 2000, the Global Compact was designed as a learning forum for promotion of good practices through a UN-business partnership. The Compact highlights ten principles relating to human rights, labor, environment, and anti-corruption measures. However, it establishes no binding commitment for specific performance criteria or progress measurements (Usui 2002).
- *ISO 14001 Standards* – The International Standard Organization (ISO), comprised of state and industry actors, developed a self-regulatory international environmental

management standard that details how a company can implement environmental management systems (EMS) into their organization. This standard spans many industrial sectors and allows companies to seek certification for some (Falkner 2003; Summer Raines 2003). However, the standard does not specify goals to be set or performance measures to be used. No reporting is required under the standard (World Resources 2003).

- *OECD's Guidelines for Multinational Enterprises* – Developed by countries of the OECD, these guidelines contain voluntary principles and standards for corporate responsibility in areas such as human rights, information disclosure, anticorruption, taxation, labor relations, environment, and consumer protection (OECD 2004). Thirty OECD countries and seven non-OECD countries currently claim adherence to the guidelines. The guidelines are not monitored or enforced.

MNCs have focused on their role in the international environmental treaty arena as one of partners in sustainable development or through promoting voluntary initiatives. They have strongly opposed specific obligations or regulations (Clapp 2003).

To support their roles in influencing international environmental treaty decisions, companies have organized into business advocacy groups, industry groups, and single-company representatives. Two notable business lobby groups, the International Chamber of Commerce (ICC) and the World Business Council for Sustainable Development (WBCSD), regularly attend environmental treaty meetings. Kofi Annan worked with the ICC in developing the aforementioned Global Compact and along with the WBCSD (then Business Council for Sustainable Development) promoted market-oriented and self-regulatory models for international environmental governance (Falkner 2003). The ICC continues to emphasize voluntary codes of conduct (Global Compact 2004b).

Industry groups also attend treaty meetings with the intent of influencing decisions. Recent players include the Global Industry Coalition (GIC) on biotechnology and the Global Climate Coalition (GCC) on climate change (Clapp 2003). Individual companies also attend meetings when the negotiations are relevant to their interests. For example, Monsanto, Dupont, and Syngenta attended the meetings that led to the Cartagena Protocol on Biosafety (Clapp 2003).

These MNC efforts have not been well-received among civil society groups for several reasons, particularly the lack of enforceability and transparency in how they make decisions regarding environmental policy. MNCs have also been charged with lowering environmental standards in developing countries where national regulatory standards are lower than those in developed countries.

A 2000 OECD investigation reported that only 10 percent of 246 codes surveyed included provisions for external monitoring. The report found that provisions for monitoring by external groups are more common in sector-wide codes and in codes initiated by NGOs, as opposed to those established by individual companies (World Resources 2003). Research on the top 250 of the Fortune 500 firms found that sustainability reporting has increased from 35 percent in 1998 to 45 percent in 2001, with an increase in verified reports over the same

period increasing from 19 percent to 29 percent (Kolk 2003). While the increase in verified reports is positive, many question the remaining majority that does not have third-party verification.

Even though companies claim to self-monitor, their efforts have been criticized as mere rhetoric. Civil society groups claim to have inspected more thoroughly and found inconsistent compliance, rare inspections, and a greater emphasis on product quality than on code rules (World Resources 2003). Furthermore, a study that assessed the environmental metrics used by 79 corporations found them to be inconsistent across companies, leading to comparability difficulty, and more focused on descriptive indicators of the current state of the environment rather than target indicators reflecting the long-term commitment of the company (Marshall and Brown 2003). These findings call into question the future intent of corporations. For these reasons, several civil society groups are calling for binding corporate rules at the national and international level that go beyond voluntary schemes (Martens 2004).

Although command-and-control mechanisms are designed to force compliance, corporations are not always opposed to regulation. One analysis of the Montreal Protocol indicates that the United States swiftly stepped in to eliminate all chlorofluorocarbon (CFC) production once the leading American corporate producer of CFCs, Dupont, had developed an alternative technology (Levy 1997). Furthermore, the success of the Montreal Protocol was eased by the small number of industries affected by a CFC ban and the insignificant economic impact of the chemical.

In contrast, the Kyoto Protocol affects nearly every industry and thus has potential for significant negative economic repercussions (Levy 1997). That said, even though the Bush Administration remains steadfast against the Kyoto Protocol, American companies like Dupont are moving toward compliance in the absence of regulation, having already reduced their greenhouse-gas emissions by 65 percent compared to 1990 levels because they anticipate changes and want to keep pace with the global markets (*The Economist* 2004b). Resistance to regulatory controls is not always in a corporation's best interest, and requires a deeper inquiry on an issue-by-issue basis (Falkner 2003).

These differences suggest that each treaty proposal must be assessed to determine which corporations win or lose, and what the trade-offs might be within their operations. A valuable mechanism for this function might be a UN-sanctioned forum for the corporations that will acknowledge the importance of MNCs. Such a forum would formalize their entry into negotiations, encourage dialogue among the participants prior to a formal treaty meeting, support peer learning among corporations, and create incentives for participants.

### **Strengthening the UN Global Compact**

MNCs can play a positive role in the international environmental treaty process to promote compliance by assessing their role on a multi-tiered perspective. In particular, this article will argue that corporations have a significantly positive contribution to make, but the solution lies in a transparent and accountable governance structure for corporations. Furthermore, the role of the corporation must be assessed at multiple levels, as adherence to specific treaties will not occur simply by state decree, or even CEO accord. Rather, compliance

depends on decisions of the state, the industry, the company, and the individual. The proposed changes address this cascading compliance model.

There are several examples of corporations that play a role in the environmental treaty-making process. However, all groups are not equal from the perspective of a UN decision-making body. A group that works with the UN should be headquartered in a UN country. Given that the intent of the Global Compact launch in 2000 was to create a partnership between the UN and business, it is an excellent foundation from which to begin discussions.

The UN Global Compact is the single largest voluntary corporate citizenship initiative among corporations (Engardio 2004). The Compact has grown from 50 charter members at launch in July 2000, including companies such as Daimler Chrysler, Unilever, Deutsche Bank, BP Amoco, Royal Dutch Shell, Volvo, Credit Suisse, Dupont and Nike (Paine 2000) to now include over 1,700 corporate participants (Global Compact 2004a).

The Global Compact asks that participants support ten principles related to human rights, labor, environment, and anticorruption. The Compact is not an enforcing body and corporations sign on voluntarily without monitoring. The Compact chooses to support companies who sign on and demonstrate a willingness to improve their practices over time (McKinsey 2004; Global Compact 2004b).

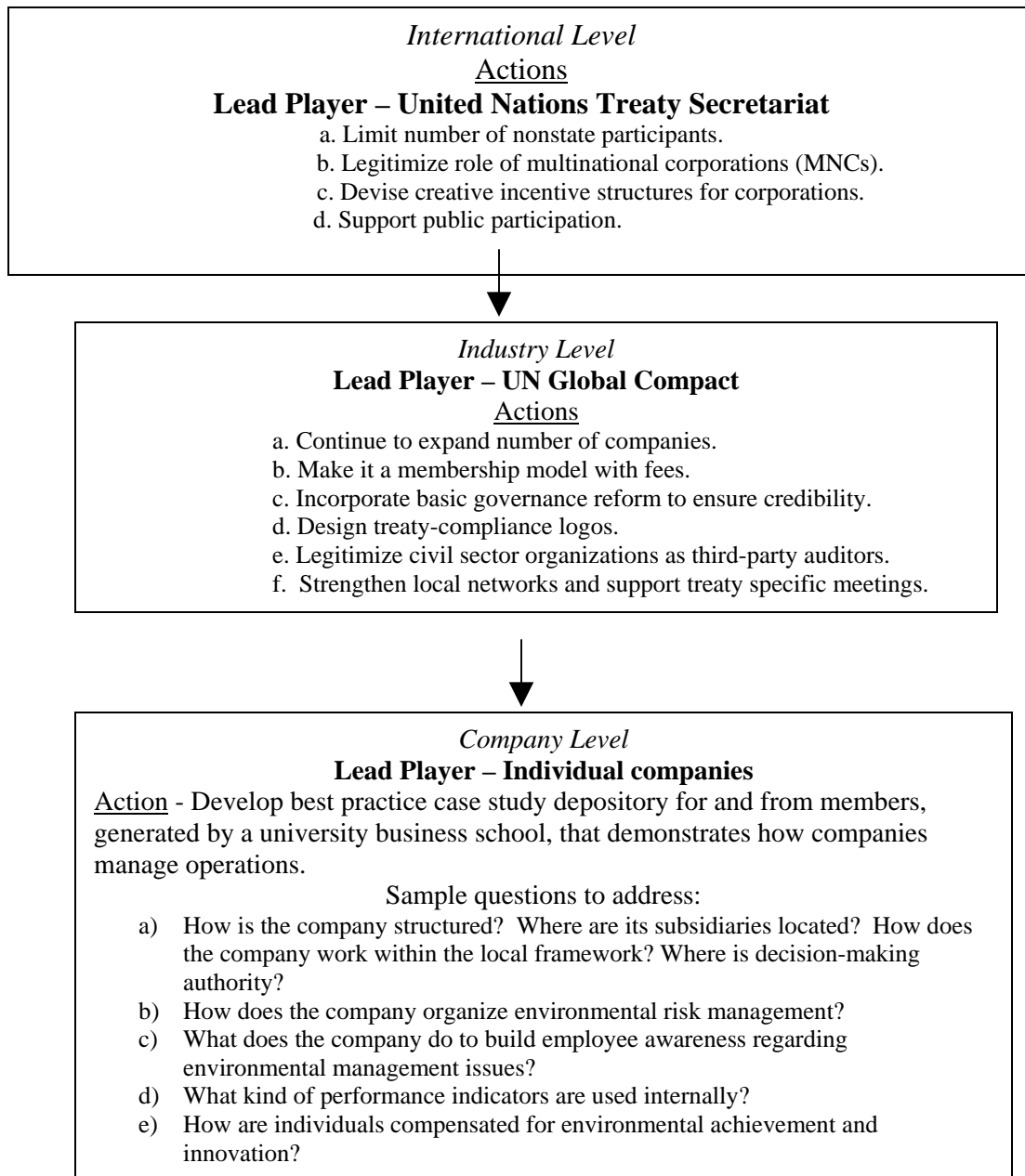
Activities organized by the Compact's central office in New York include interactions with CEOs and other leaders, policy dialogues, a learning forum for exchange of best practices, local initiatives, and network connections (McKinsey 2004). Through these mechanisms, the Compact engages with corporations across various industries and serves as a central node for coordination among industry leaders. Furthermore, the Compact includes NGOs, labor groups, and UN agencies as well as business leaders, thus beginning to address the need for engagement among the various players.

Because the Compact focuses specifically on environmental issues, it is an ideal candidate for inclusion in the international environmental treaty-making process. Current business interest representatives at treaty meetings have no vested interest in the environment. A strengthened Compact will provide a focused voice in treaty negotiations for businesses having important environmental concerns and impacts.

### **Cascading Compliance**

The following proposal assesses the potential role of the Global Compact 1) on the international stage as it relates to environmental treaties; 2) as a group representing the international business perspective; and 3) in leading and supporting individual companies trying to implement environmental improvements to comply with treaty decisions. The principal aim in looking at these three areas is to demonstrate that change, and thus compliance, cannot occur at a single level. It is in the interest of the global community to ensure that MNCs are engaged at multiple levels to ensure the highest opportunity for compliance success. Figure 1 illustrates the cascading compliance framework. These levels include international, industry group, and individual company areas of interaction.

**Figure 1. Cascading Compliance Framework**



*International Level*

At the global level, the Global Compact should interact within the UN international environmental treaty-making system. Currently, the Compact has no stated role within the system; its activities are limited to demonstrating the partnership between business and the UN (Global Compact 2004a). However, the business advocacy groups that influence the treaty-making process, such as the ICC, the WBCSD, and some individual corporations), are also included in the Global Compact. As such, they are already influencing treaties as informal participants by attending the meetings and interacting with other players when they are not in formal session. Due to the significant economic position of the MNCs they

inevitably influence the positions of states. There are advantages to formalizing the role of the Global Compact within the treaty-making regime.

While there are concerns raised by members of civil society groups that corporations should not be a part of the UN system (Paul 2001), it is the intent of this proposal to strengthen the transparency of the system so that corporations with currently informal but powerful influence will be accountable. The following changes are suggested at the UN international level:

First, limit the number of nonstate participants. The UN environmental treaties gain significantly from nonstate actor participation and from the contributions of science and technology to the public advocacy alerts. Their presence should continue to be welcomed. That said, the UN needs to re-establish its position as the owner of the international treaty process, maintaining state actor sovereignty while acknowledging the importance of nonstate actors. Because the UN establishes the rules of the system it is in its interest to ensure that the voice of nonstate actors is allowed, but only if certain criteria are met.

Limiting the number of corporate representatives in the formal treaty process would promote a higher likelihood of achieving consensus among participants. Because a group working within the UN must also be approved by the UN, the Global Compact is well-suited to interact at a treaty level given its diverse industry and geographic representation, as well as its principles related to the environment. Any nonstate actor group that attends the environmental treaty meetings should have accepted the principles of sustainable development. Due to the high number of MNCs in existence today and the lack of formal rules concerning their involvement, it has been easy for business lobbyists without any solution to a given environmental problem to indirectly influence their governments and even international environmental negotiations. It is within the UN's interest to limit the involvement of any nonstate actors to those groups willing to help generate solutions.

Limiting corporate participants only to members of the Global Compact will help structure the current *ad hoc* participation of corporations. Although the intent is not to have all of the 1,700-plus corporations attend the meetings (this will be discussed further below, the exclusivity will create an incentive for corporations to become members of the Global Compact.

Second, legitimize the role of MNCs by granting voting status to the Global Compact. MNCs are currently allowed to attend environmental treaty meetings as "observers" (Clapp 2003) enabling them to indirectly influence the state actors without accountability. Because industry groups do not necessarily share similar goals, for each treaty ten votes should be allotted to corporations organized within the Global Compact and as determined at Compact meetings. These ten votes would represent just under six percent of the total 191 state members. The corporate votes will not be significant enough to override state decisions but will give corporations a public voice and accountability for any position they may take. The ten votes will be determined by a representative vote of the Compact members. More on how these companies might achieve decisions will be presented below.

If the Global Compact group has an official status with voting rights, MNCs are more likely to comply with treaties. They will have gained a formal opportunity to voice their concerns

and become participants in the solution suggestions, informing state actors on what is feasible and what is not. The MNC groups will have significant interest in working formally with the UN decision makers because they will have a legitimate voice in the decisions that affect them.

Third, the Global Compact should devise creative incentive structures for corporations. According to a recent survey conducted by McKinsey & Company, member companies value the Compact because of its association with the Secretary General rather than because of Compact activities which do not differ greatly from those of other business organizations (McKinsey 2004). The right to vote on treaties would certainly be a major incentive for corporations to join the Compact. The UN states also need to think about creative incentive structures for specific treaties.

Although not always the case, corporations often view regulatory mandates as costly and will more often push for market-based incentives to comply with public sector goals. This is especially the case in North America, home to many revenue-rich multinational corporations. Because the threat of regulation exists at a domestic level, and it is not as high at the international level, the UN should work to create incentives that will encourage companies to find solutions to their goals, be they domestic or international standards. The companies themselves will need to innovate to either reduce pollutants or develop alternative technologies that are more environmentally friendly in whatever regulatory context they choose to operate.

The UN should work with the Global Compact on specific incentive components of a proposed treaty such as tax breaks, temporary patents, temporary subsidies, contracts, institutional support, etc. to encourage regulatory compliance. Examples from regional actions include Europe's EU Carbon Trading Scheme and the European Commission's Sustainable Trade and Investment Centre, a research center that advises partners on how to promote sustainable development (World Resources 2003).

Another significant incentive that treaty states can offer to compliant corporations is a treaty-certified label. For example, companies that meet and exceed the requirements for treaty initiatives might be entitled to use a UN-accredited logo specific to that treaty pending certification by a third-party auditor. For example, those who meet Kyoto's greenhouse-gas emissions standards will be able to use a "Kyoto Compliant" or "Kyoto Approved" label on their business communications, thus informing consumers of their responses to global environmental challenges. The role of the third-party auditor will be discussed below.

Fourth, support public participation. Two of the central components of accountability structures are openness and transparency. In addition to third-party auditors, citizens can participate in an additional transparency initiative. UN secretariats for specific treaties should create a forum for citizens of nations around the world to voice their opinions on proposed treaties and public-private sector partnerships in response to those initiatives. These forums would be comparable to the open forum organized by the Commission on Environmental Cooperation (CEC) under NAFTA, which allows citizens of North America to issue complaints when one of the countries fails to enforce its own environmental laws (Ferretti 2000). As in the CEC forums, a complaint to a treaty secretariat would not mandate a response (due to resource constraints), but would make the process more

transparent to those who depend on the ecosystem the most. Furthermore, with MNCs as formal players in the process, individual citizens of the world would be able to voice their concerns, representing a non-institutional voice, and thereby creating more citizen democracy through a formalized context.

### **Industry Group Level**

This section describes how corporations relate to each other within the Global Compact. The corporations that have signed on to the Compact have agreed to adhere to ten principles, though they are not bound by their pledge. Several civil society organizations have voiced concern for this lack of accountability, claiming that adherence to the principles is more rhetorical than active (Paul 2001; Martens 2004). Some members in the Compact itself believe that there should be some rules for membership (Global Compact 2004b).

The following six proposals are designed to strengthen the existing Global Compact to ensure that a company's active pursuit of the principles is made more transparent, thus providing legitimacy to the UN, lest its image be marred from corporate nonadherence. The first five proposals refer to the management of the Global Compact; the sixth is designed to improve relationships among Compact companies.

#### *1. Continue to expand the number of companies.*

Of the more than 1,700 corporations currently signed on to the Compact, almost half have headquarters outside the OECD (McKinsey 2004). A large number of the non-OECD nations are developing countries. In contrast, only about 15 percent of the members of the WBCSD, a very influential business lobbying organization, are from developing countries (WBCSD 2004). Including developing countries in business decision making is very important because their economic growth is expected to contribute to a large proportion of future environmental problems. It is predicted that by 2100, developing countries' emissions will be two or three times greater than those of the developed world (Carey 2004). Clearly, the developing countries and their corporations need to play a role in managing environmental resources.

European companies comprise 46 percent of companies participating in the Compact, while North American corporations represent only eight percent (McKinsey 2004). The relatively small number from North America is attributed to fear of legal liabilities, concern over labor rights provisions, and lack of appreciation of the potential benefits of working with the UN (McKinsey 2004). However, the Compact has recently worked out an arrangement with the American Bar Association to alleviate the first two American fears (*The Economist* 2004a). If the power to vote on environmental treaties and use a UN-endorsed logo on products are adopted, the benefits of working with the UN will clearly increase, and some of the more significant MNC players from North America may choose to join.

#### *2. Charge a fee for membership.*

To participate in the Compact, a company submits a letter to Secretary General Kofi Annan, pledging support to the Compact's initiatives. The company is then expected to adhere to the ten principles of the Compact (Global Compact 2004a). Current funding for the Compact is limited; it has only 13 full time staff members, which constrains the group's abilities to initiate actions on the behalf of members. Meanwhile, members have been voicing their desire for more practical tools from the Compact (McKinsey 2004). The

payment of membership fees by corporations would enable the Compact group to expand its range of offerings to member companies, creating yet another incentive to join.

To be competitive with membership rates from business advocacy groups like the WBCSD and ICC, the Global Compact should set a pay scale according to each company’s revenue generation. The following membership fee is suggested:

<b>Revenues (US\$ millions)</b>	<b>Membership Fee</b>
<5	\$2,500
5-10	\$5,000
10-15	\$10,000
50-100	\$15,000
>100	\$20,000

*3. Incorporate basic governance reform to ensure credibility.*

Participation in the Global Compact currently imposes no significant responsibility on corporations. While the Compact group wants companies to make progress on the ten principles, there is no monitoring to ensure that they do. Civil society organizations and even some members themselves believe that there needs to be some basic governance reform to ensure that there is meaning to what members of the Global Compact represent (McKinsey 2004; Global Compact 2004b; Martens 2004).

Due to the range of operations that each company performs, it will be very difficult to install a rigorous set of reporting mechanisms to demonstrate how well companies adhere to the principles. However, as there are currently no reporting mechanisms required, it is proposed that companies publish in their annual reports how they are instituting changes to adhere to the principles. Several of the companies have already begun doing this. The Compact group should choose a standard reference framework for all participating companies to observe.

The Global Compact office could work with the well-established Global Reporting Initiative (GRI) to assist them in developing this basic standard. Although the standard may not be as rigorous as the GRI indicators, the GRI group will have a better understanding of which metrics are reasonable to ask of companies to apply across a wide spectrum of industries. While this may appear as only minor incremental improvement, the further push for compliance will come through the Compact’s support of specific treaty initiatives, as to be discussed below.

Once all corporations begin issuing statements in their annual reports, they will have the option to be certified by a third-party auditor. Third-party certification will be optional, but choosing it will give greater legitimacy to a company’s claim to good corporate citizenship. The third-party auditors will be accredited by the Global Compact office, but not hired by them, given resource constraints. Many consulting and civil society groups are able to fill this third-party auditor role.

By instilling a formal reporting structure, the Compact would enhance the transparency and legitimacy of its environmental performance. By allowing the option to become certified in

the ten basic principles, the UN maintains the voluntary nature of the Compact, but allows the more ambitious companies to strengthen their reputations in the public eye. Companies opposed to strict international mandates will still have the flexibility to address the ten principles as they see fit.

#### *4. Design treaty-compliance logos.*

As mentioned above, an incentive for corporate compliance can be offered through a third-party certified, UN-accredited logo indicating accord with specific treaties. Similar to the ISO 14000 codes or other industry standards, the treaty logo would demonstrate a company's progress and willingness to work with the international community, thus offering a positive corporate image. A universal logo like "Kyoto Compliant" could be used for public relations campaigns and during corporate-sponsored events where the public would not only learn of the corporate initiatives on the environment, but also gain awareness of environmental treaties in general. In order for the UN to confer treaty compliance status to a corporation, the company would need to be certified by a third-party auditor.

The treaty-labeling scheme will also serve as an incentive for enhanced collaboration among industry players, as the logo will become a method of communicating with the public. The various pressures that corporations currently face from consumers regarding social and environmental issues have the potential to affect profitability, a significant driving force for behavioral change. Labels are visible symbols that distinguish between sustainable and less sustainable practices. Examples of previous collaborations include the Responsible Care program among chemical companies; forestry management changes through the Forestry Steward Council label; and sustainable fishing practices as designated by the Marine Stewardship Council label (de Boer 2003).

#### *5. Legitimize civil sector organizations as third-party auditors.*

Officially, the Global Compact was developed as a joint initiative between the UN, industry, and civil society (Global Compact 2004a). Groups such as the International Confederation of Free Trade Unions, Amnesty International, and Oxfam are allowed to equally participate. However, the total number of CSOs involved is rather limited, accounting for approximately seven percent of total membership (McKinsey 2004). Furthermore, it is not clear how various CSOs are allowed to join. The Compact website shows only how businesses can participate; adoption criteria for CSOs is apparently stricter than those for companies (Martens 2004).

The Global Compact group should become the accreditation body for the certification of various company practices, including the optional Global Compact certification or the certification for treaty compliant logos. The Compact group would accredit various CSOs and auditor companies that have expertise in the environment and social practices.

When third-party auditors find companies to be noncompliance, either to treaty provisions or voluntary adherence to the Compact standards, they will be put on probation for a year, giving them the opportunity to overcome their liabilities. If within a year they are still found noncompliant, they will lose their claim to the logo in the case of treaty compliance, or be dropped from Global Compact membership in the case of the Compact standards.

*6. Strengthen local networks and support treaty specific meetings.*

At the time of the Global Compact launch, local networks developed in several geographic regions. As of March 1, 2004, there were 43 official networks of which 29 were actively working with the Global Compact main office (McKinsey 2004). The development of these local networks indicates the enthusiasm of Compact participants for learning about Compact principles and practices from their peers. It also indicates an opportunity for the Compact main office to provide support to these local network meetings, which will help facilitate official, international Compact meetings.

The Compact office should promote local network meetings that focus on specific treaties and add a new dimension to the peer-to-peer networks. As stated above, corporations often pursue conflicting objectives when seeking solutions to environmental treaties. Some firms may favor environmental standard harmonization, while others oppose them; some favor market-based initiatives while other firms have already adapted to national regulations and thus find it in their interest to preserve the traditional governance mechanisms (Falkner 2003). The function of the local network meetings would be to structure discussions so that different groups can begin to understand the other perspectives on treaty-specific points, thereby beginning negotiations prior to official treaty meetings.

I suggest that treaty-specific meetings at the local network level and also at higher levels when possible include time for participants to divide themselves by industry. These industry task force groups would then discuss how the proposed treaties will affect their industry and what can be done to overcome the anticipated consequences. Rather than attempting to find ways to comply with all terms of a given treaty, the task forces should divide the treaty's components into smaller, more manageable pieces, focusing their attention on the details that each task force is best equipped to consider.

In some instances, corporations may find that regulatory structures will help to level the playing field while other situations may be better served by competitive, market-based initiatives. In either case, company forums will encourage discussion among the participants so that trade-offs may be made, and the implications of a treaty may be understood prior to the official international treaty meeting. The limitation of attendance at international meetings to ten voting representatives of the Compact would stimulate consensus among the various players. While it is improbable that all corporations will be seeking the same objectives, the meetings will allow dialogue and the identification of potential solutions which will then be presented at the international treaty meeting including all Compact members.

**Individual Company Level**

Once corporations determine their goals at the executive level, they must then manage their various business divisions and subsidiary locations to effect the changes. Such changes require comprehensive structural adjustment and strategic planning, from communication dispersion to the establishment of key performance indicator metrics. To assist the companies with changes in management procedures, the Compact should support the dissemination of best practice information.

The Compact currently maintains a web-based “learning forum” in which company members share best-practice strategies in the form of case studies. While this is a practical tool that appears to meet the needs of information dissemination, thus far only 14 percent of member companies have contributed to the learning forum (McKinsey 2004). Furthermore, the cases presented are self-selected and reported by the companies themselves, which might lead to information bias or selective investigation.

The Compact office should work with a third-party case study developer, such as a business school, that will take on the role of case study creation. The cases will be listed in a central depository such as the existing learning forum, but will include contributions from more companies and a wider range of topics. The Compact has worked in this way with Case Western Reserve University (Global Compact 2004b). Further work with business schools such as Wharton, Harvard Business School, and Sloan Management School, might be initiated.

The case studies should incorporate as many dimensions of environmental initiatives as possible, focusing in particular on how companies have restructured their operations to accommodate changes and how they have devised corporate and employee reward systems and built employee awareness. The cases should also assess companies’ relationships with suppliers, other companies, policy makers, and other stakeholders like institutional investors and consumers. Corporations may not be able or willing to replicate measures that have been effective within other corporate cultures. The objective of the case studies is to demonstrate not just specific changes, but ways to operationalize change, an extremely valuable skill for company decision makers.

As the cases develop, Compact members should be encouraged to pose questions that are difficult to answer. University-based case writers can respond by interviewing other member companies. The published cases will demonstrate good corporate citizenship behavior and act as a positive public relations strategy and incentive to comply with Compact or treaty standards.

Relevant questions might include:

- a. How is the company structured? Where are the subsidiaries located? How does the company work within the local framework? Where is decision-making authority?
- b. How does the company organize environmental risk management?
- c. What does the company do to build employee awareness regarding environmental management issues?
- d. What kind of performance indicators are used internally?
- e. How are individuals compensated for environmental achievement and innovation?
- f. How does the company assess its environmental role when choosing suppliers?

As more case cases are shared in the learning forum, other questions will become increasingly important, investigations begun, and solutions disseminated. By working with the Compact office as coordinator and the business school system as generator, the forum will support Compact members with credible information that the public can also look to for verification of corporate citizenship efforts.

## Conclusion

By assessing the role of corporations in international environmental treaties from a multi-dimensional framework, one begins to appreciate the complexity involved in how decisions are made and fulfilled. The cascading compliance model presented here is designed to overcome some of that complexity by establishing structured involvement criteria, beginning with the international level, to an industry dynamic level, to that of the individual corporation. This proposal can not only strengthen the role of the corporation in the environmental treaty negotiations, but also formalize their accountability through transparency and independent third-party certifications while building incentive structures to encourage corporate participation. The balanced approach of this model acknowledges the importance of MNC involvement for compliance to any environmental treaty. It also ensures that the power of the MNC does not go unchecked. Such an approach will help environmental secretariats to meet and even exceed treaty objectives, and thus reduce the negative environmental impacts now considered “external” to corporate economics.

## References

- Carey, John. 2004. Global warming. *Business Week*, 16 August.
- Clapp, Jennifer. *forthcoming*. Transnational corporations and global environmental governance. In: Peter Dauvergne (ed.) *Handbook of Global Environmental Politics*. Northampton, MA: Edward Elgar.
- Commoner, Barry. 1972. The Environmental cost of economic growth. In *Population, Resources and the Environment*. Washington, DC: Government Printing Office.
- De Boer, Joop. 2003. Sustainability labelling schemes: The logic of their claims and their functions for stakeholders. *Business Strategy and the Environment*, 12.
- The Economist*. 2004a. Bluewashed and boilerplated. 17 June.
- The Economist*. 2004b. Welcome to Kyoto-land. 7 October.
- Ehrlich, Paul R., and John P. Holdren. 1971. Impact of population growth. *Science* 171: 1212-17.
- Engardio, Pete. 2004. Commentary: Global compact, little impact. *Business Week*, 12 July.
- Falkner, Robert. 2003. Private environmental governance and international relations. *Global Environmental Politics*, May.
- Ferretti, Janine. Accessed 2004. The North American Commission for Environmental Cooperation: A model for international environmental governance. [http://www.yale.edu/gegdialogue/docs/northamerican\\_commission.doc](http://www.yale.edu/gegdialogue/docs/northamerican_commission.doc), September.
- Global Compact. Accessed 2004a. *Global Compact*. <http://www.unglobalcompact.org>. December.

Global Compact. Accessed 24 June 2004b. *The Global Compact Leaders Summit: Final Report*. <http://www.unglobalcompact.org>.

Hart, Stuart L. 1997. Beyond greening: Strategies for a sustainable world. *Harvard Business Review*, 75, Jan-Feb.

Kolk, Ans. 2003. Trends in sustainability reporting by the Fortune Global 250. *Business Strategy and the Environment*, Sep/Oct.

Levy, David. 1997. Business and international environmental treaties: Ozone depletion and climate change. *California Management Review*, Spring.

Marsden, Chris. 2004. Dealing with Joel Bakan's pathological corporation: A strategy for campaigning human rights and environmental NGOs. *Amnesty International*, July.

Marshall, R. Scott and Darrell Brown. 2003. Corporate environmental reporting: What's in a metric? *Business Strategy and the Environment*, Mar/Apr.

Martens, Jens. 2004. Precarious partnerships: Six problems of the Global Compact between business and the UN. *Global Policy Forum*, 23 June.

McKinsey & Company. 2004. Assessing the Global Compact's Impact. McKinsey & Company, 11 May.  
[http://www.unglobalcompact.org/irj/servlet/prt/portal/prtroot/com.sapportals.km.docs/ungc\\_html\\_content/NewsDocs/imp\\_ass.pdf](http://www.unglobalcompact.org/irj/servlet/prt/portal/prtroot/com.sapportals.km.docs/ungc_html_content/NewsDocs/imp_ass.pdf)

Morgera, Elisa. 2004. From Stockholm to Johannesburg: From corporate responsibility to corporate accountability for the global protection of the environment? *RECIEL*, 13.

Nowlan, Linda and Chris Rolfe. 2003. Kyoto, POPS and straddling stocks: Understanding environmental treaties. *West Coast Environmental Law*, January.

Organisation for Economic Co-operation and Development. Accessed December 2004. <http://www.oecd.org>,

Paine, Ellen. 2000. The road to the Global Compact: Corporate power and the battle over global public policy at the United Nations. *Global Policy Forum*, October 2000.

Paul, James. 2001. Global compact with corporations: "Civil society" responds – NGO panel on corporate accountability." *Global Policy Forum*, 15 February.

Summers Raines, Susan. 2003. Perceptions of legitimacy and efficacy in international environmental management standards: The impact of the participation gap. *Global Environmental Politics*, August.

Usui, Mikoto. 2002. The Role of Private Business in International Environmental Governance. Working Paper IAS–CGP Project on International Environmental Governance. United Nations University Institute of Advanced Studies, February 2002.

World Business Council for Sustainable Development. Accessed November 2004.  
<http://www.wbcsd.org>.

World Resources Institute. 2003. Driving business accountability. In: *World Resources 2002-2004: Decisions for the Earth: Balance, Voice and Power*. Washington, DC: World Resources Institute.