

John G. Ruggie<sup>1</sup>  
The Global Compact and the Challenges of Global Governance<sup>2</sup>

Each of us present this meeting is, in a modest fashion, contributing to the making of a bit of history. Not only by helping to build the Global Compact, though it is an unprecedented initiative in the history of the UN. And not merely by giving practical expression to new concepts of global corporate responsibility and citizenship, though they, too, are undergoing profound changes.

Our work here is also part of a larger social project: of translating metaphors of global connectivity and community into everyday practice. Specifically, the issues on our agenda reflect a larger agenda of creating new forms of global governance – by which I mean an arena of discourse, contestation and action organized around global rule making. These newer forms of global governance are not exclusively inhabited by states but also include other social actors, and they permit the direct expression and pursuit of human interests, not simply those that are mediated – promoted, filtered, interpreted – by the state.

Movement in this direction remains episodic, highly uneven and fragile. We will encounter many reversals along the way. But in the long run it is likely to prove irreversible.

I propose to address three issues this evening. What are the main drivers of change in the new world of corporate social responsibility? How does the Global Compact fit into the scheme of things? And what are some of the key challenges ahead?

One way to begin the story is by noting that, especially highly visible, brand sensitive companies are finding themselves at the receiving end of a sharp escalation in social expectations about the role of corporations in society, at home and abroad. Corporate social responsibility is no longer merely about philanthropy. Nor is it really just about ethics as such. The new CSR concerns the fact that companies increasingly are held accountable to society at large. Why has this shift occurred?

First, and most obviously, individual firms have made themselves, and in some instances their entire industries, targets by doing “bad” things in the past. Many of them are working hard to recover reputational losses, while others are learning from their mistakes.

Second, there is a widespread public perception that corporate rights have grown significantly over the past two decades, and that rules favoring global market expansion have become more robust and enforceable – think of intellectual property rights, for example, or dispute resolution procedures through the WTO. But rules that favor other valid social objectives, be they human rights, labor standards, environmental sustainability or global poverty reduction, lag behind. These perceived imbalances – and the underlying power asymmetries they reflect – provide additional social fuel to CSR campaigns. As we speak, the WTO is struggling with these imbalances in the area of access to life-saving drugs in poor countries, and not altogether successfully. If these negotiations fail, so, too, may the Doha Round, with serious negative consequences for the entire international trade regime.

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Yet a third driver is the fact that the global corporate sector, ironically, has become trapped by its own success. We live in a world of proliferating problems without passports, as UN Secretary-General Kofi Annan calls them. But there is no government at the global level that can respond to them effectively, and our international institutions are too weak to fully compensate for this gap. At the national level governments often fail to tackle these problems because they lack the capacity or the political will.

In contrast, the corporate world has demonstrable global reach and capacity. It can make and act on decisions at a pace that neither governments nor intergovernmental agencies can match. And parts of it are vulnerable to external pressure. Society, therefore, has come to demand help from the corporate sector in coping with adversities that stem from governance gaps and governance failures. Responding to these new social demands, companies have become engaged in a host of social enterprises they would not have dreamed of a generation ago. These are well known to you. Many firms have adopted codes of conduct. Sectoral certification and labeling schemes are in widespread use. Third party auditing systems are available, as are third party social and environmental reporting systems. And public-private partnerships are proliferating; in my view, the Johannesburg World Summit on Sustainable Development, for example, would have been an abject failure without the many PPPs launched there, including the Global Compact's Sustainable Investment Initiative. Finally, companies are becoming involved in a growing array of direct social investment activities – stepping in to provide HIV/AIDS treatment to workers and families in sub-Saharan Africa, for example, where social capacity is weak or non-existent.

What value does the Global Compact add to this mix? The Compact above all is a normative undertaking, intended to align business practices with the universal values expressed in its 9 principles. The Compact uses several instruments to achieve these aims.

Through its “learning forum,” it is designed to generate consensus-based understandings of how a company's commitment to the nine principles can be translated most effectively into management practices – practices that the UN then promotes.

By means of its “policy dialogues,” the Compact generates shared understandings about, for example, the socially responsible posture for companies when operating in countries afflicted by conflict. The results from these dialogues play a normative role in the broader public arena, and they directly inform the UN's own conflict prevention and peacemaking activities.

Through its “partnership projects” in developing countries the Compact contributes to capacity building where it is needed most.

And the entire process is leadership-driven: working closely with individual leaders in companies to promote the internalization of the GC principles, and with the leading companies in the CSR movement to promote good practices throughout the global market.

Ultimately, the Global Compact is differentiated by the fact that it is the only arrangement of its kind based on principles that were universally endorsed by governments. Thus it stipulates aspirational goals of the entire international community. The Compact enlists partners in the corporate sector and civil society to help bridge the gap between aspiration and reality – to become agencies for the promotion of community norms. No other voluntary initiative can be so ambitious because none can claim a similar basis of legitimacy.

That also makes the Global Compact the perfect umbrella arrangement for the proliferating universe of more operational voluntary initiatives. Indeed, I look forward to the day when a CSR equivalent to the Star Alliance is organized around the Global Compact principles.

Let me turn to my third topic: the key challenges ahead. Enormous progress has been made, not only in the Compact but also in other voluntary initiatives. But at the end of the day the scope of these initiatives remains limited. For example, the Forest Stewardship Council, perhaps the most celebrated labeling institution, has certified 70 million acres of forests – which amounts to a mere four percent of the total acreage controlled by timber countries. Sales of Fair Trade Certified coffee are estimated to have been 30 million pounds in 2001, a tiny fraction of total global coffee sales. Fewer than 200 firms out of a total of 1,500 participate in the US chemical industry’s Responsible Care program. The Compact has grown from 50 to nearly 800 companies in just three years – but there are 68,000 transnational corporations in the world, with 800,000 subsidiaries, not to mention millions of national companies, so we have a ways to go.

How do we reach the tipping point, beyond which change becomes irreversible? At the risk of sounding like a heretic, I would contend that private governance arrangements, no matter how successful, can take us only so far. They will remain relatively small islands of progress unless their achievements are rooted in, and generalized through, the sphere of public authority.

I find it fascinating that many corporate leaders at the frontier of CSR issues are coming to a similar conclusion. They have begun to realize that the concept of corporate social responsibility is quite elastic: the more they do, the more they are asked to do. As a result, representatives of the private sector have begun to demand, “*Where* is the public sector?” It is no coincidence that some of the leading global business groups, including the World Economic Forum, have recently launched governance initiatives – not to *curtail* the public sector, but to clarify where *private* sector responsibility *ends* and public responsibility has to begin.

Similarly, in the staggering HIV/AIDS treatment crisis in Africa, as the major pharmaceutical companies have been forced to lower their prices, a growing number of private sector employers have begun to provide anti-retroviral treatment programs for their employees – a third of whom are infected in the case of AngloAmerican mines, for example. In parallel, those companies have become strong advocates for public sector capacity building in education, public health and infrastructure development.

Finally, the accumulation of experience through voluntary initiatives itself will lead to a desire for greater benchmarking, for moving from “good” to “best” practices and in some instances formal codification – and the advocates will include industry leaders wanting a level playing field, or to exploit opportunities that others just don’t see yet. Laggards have a harder time opposing standards based on actual achievements by their peers than *ex ante* standards.

Thus, *the* key CSR question for the early twenty-first century at the *global* level is very nearly identical to the question we grappled with at the *national* level in the industrialized countries throughout the twentieth: what are the principles and boundaries determining public and private responsibilities?

This terrain is fraught with strategic manipulation and the potential for shirking on the part of business and governments alike. But it also opens the door to more firmly institutionalizing the emerging systems of global governance by bringing the public sector back in. And having the



business community on board may give politicians everywhere, including in my own country, the courage to do what they get paid to do: to govern, and to govern in the public interest.

States cannot monopolize global governance. But in our global village no less than in the ancient Greek polis, no effective governance is possible without them.

I have climbed my way back up the ladder of abstraction to talk about global governance, but I hope the subject no longer seems merely abstract. For here in this room are some of its participants: governments, who defined the principles on which the Global Compact is based, who engage in private-public partnerships and formulate the rules of the game; companies, whose behavior the Compact seeks to shape; labor, in whose hands the concrete process of global production takes place; NGOs, representing the wider community of stakeholders; the United Nations, the world's only truly global political entity; and – last as well as least – those of us who are academic voyeurs, trying to understand, and agitate for, progressive change.

Thank you for the privilege of letting me join you on this extraordinary voyage.