

# “Globalization, the Global Compact and corporate social responsibility”

by John G. Ruggie\*

The Global Compact has attracted considerable attention in the world's press, much of it supportive. An editorial in the *Christian Science Monitor* – no free-market apologist – described it as Secretary-General Kofi Annan's “most creative reinvention yet” of the United Nations.

At the same time, the initiative has generated sharp criticism in some parts of the NGO community – as at an anti-globalization forum held to coincide with the United Nations' own Millennium Summit.

This article has three objectives. First, to ensure that the Global Compact (GC) is fully understood, it briefly describes what it seeks to accomplish and how.

Second, it places the GC in perspective. What is it *about*, in the broader and deeper context of globalization?

And third, it addresses explicitly some of the criticisms voiced by NGOs.

## The Global Compact

The GC is an initiative intended to promote corporate social responsibility and citizenship in the new global marketplace. It seeks to utilize the power of transparency and dialogue as its chief tools. And it is a collaborative effort involving not only the United Nations and corporations, but also international labor and NGOs as core participants.

The GC is not designed as a regulatory instrument. Nor should it be seen as a substitute for any regulatory arrangement that either countries or companies might wish to construct. It simply represents an altogether different type of organizational activity: an open-ended experiment intended to identify, disseminate and promote good practices based on universal principles.

The GC encompasses nine such principles, drawn from the Universal Declaration of Human Rights, the International Labour Organization's Fundamental Principles on Rights at Work and the Rio Principles on Environment and Development.<sup>1</sup> The ILO, Office of the High Commissioner for Human Rights and the United Nations Environment Programme are the core UN partners, along with the United Nations Development Programme to manage the operational dimensions.

The GC asks companies to act on these nine principles in their own corporate domains, moving towards “good practices” as understood by the broader international community, rather than relying on their often superior bargaining position vis-à-vis national authorities, especially in small and poor states, to get away with less.

Specifically, companies are asked to undertake three commitments:

1. To advocate the Compact and its 9 principles in mission statements, annual reports and similar public venues, on the premise that their doing so will raise the level of attention paid to, and the responsibility for, these concerns within firms;

2. To post on the GC website – [www.unglobalcompact.org](http://www.unglobalcompact.org) – at least once a year the concrete steps they are taking to act on the 9 principles, discussing both positive and negative lessons learned – and triggering, thereby, a structured dialogue among the various participants;

3. To join with us in partnership projects of benefit to developing countries – either policy dialogues (for example, on the role of corporations in zones of conflict) or operational activities (such as Ericsson's First on the Ground initiative, which will provide emergency telecommunications equipment in countries hit by natural disasters).

Following a high-level kickoff event at the UN on 26 July, our efforts have been focused on achieving practical results – and letting those results speak for themselves. And we have been devising a recruitment strategy to hit our target of 1,000 major companies within 3 years.

So, that's the Compact itself. What is it *about*, in the broader context of globalization?

## The Global Compact and globalization

The GC is a voluntary instrument promoting corporate social responsibility. It isn't the only way to achieve that aim, but it is one way.

Do we believe that companies, all of a sudden, have become altruists? Certainly not – and I, for one, would be deeply suspicious if any made that claim. Companies are in business to make money. The issue is *how* they choose to make their money.

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1. The 9 principles are: support and respect for the protection of internationally proclaimed human rights; non-complicity in human rights abuses; freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced and compulsory labor; the effective abolition of child labor; the elimination of discrimination in respect of employment and occupation; a precautionary approach to environmental challenges; greater environmental responsibility; and encouragement of the development and diffusion of environmentally friendly technologies.

Although the motivations of company participants in the GC vary, I can imagine several reasons for their wanting to join up.

The most encompassing is the protection and promotion of the company brand – which accounts for an ever increasing, and in some cases overwhelming, share of companies' market valuation. In that context, it pays for them to do "good" things – and to be seen to do them.

Some companies have done "bad" things in the past, they have paid a price in public embarrassment and perhaps even diminished sales or stock values, and they now want to pursue a different path.

Others have come to view global corporate social responsibility as a natural extension of corporate social responsibility in their home countries, as one of the rules of the game in the new global marketplace.

Still others – particularly companies in cutting edge industries, where attracting absolutely the best personnel worldwide is the key to success – have found that they cannot sufficiently motivate the very best people only with monetary rewards. In these cases, more elevated social purposes are becoming part of corporate culture.

In each instance, the Global Compact exists to help those companies, and to disseminate the lessons learned from their experience.

Finally, there may be companies looking to the GC for a free ride – mere publicity, or "co-branding" with the UN, as it were – with little intention of doing what we ask of them. If so, they ought to be aware that they are operating in a fish bowl. None of the other Compact participants – not the UN, NGOs, labor *nor* other companies – will take lightly being exploited to promote "bluewash" instead of "good practices." Furthermore, the press and the NGO community at large have made their interest in the GC very clear, so that the level of ongoing scrutiny is likely to be high.

In short, as markets are going global, so, too, must corporate social responsibility and citizenship. The GC is one means towards that end.

The Global Compact seeks to weave universal values and principles into global corporate behavior. And it brings together all the relevant social actors in doing so: governments, who defined the principles on which the initiative is

based; companies, whose behavior we are seeking to shape; labor, in whose hands the concrete process of global production takes place; NGOs, representing the wider community of stakeholders; and the United Nations, the world's only truly global political entity.

That is what the Global Compact is about.

## Some areas of disagreements

Why, then, are some NGOs and activist groups critical of the GC initiative?

Let me acknowledge at the outset that, without the awareness created by civil society organizations, the debate on corporate social responsibility would be less advanced, and less productive, than it is today. Indeed, there might not yet be a Global Compact.

Moreover, a number of NGOs are genuinely concerned about the risks involved to the image and reputation of the United Nations of reaching out to the private sector. In turn, we genuinely appreciate their concern. There will be gray areas in implementing the Global Compact, and from time to time a mistake will be made – it is inherent in the nature of the enterprise. But we will do our best to minimize risks, and we welcome suggestions and assistance on how to do so most effectively.

Some NGOs have criticized the Global Compact for not being a code of conduct, with explicit performance criteria and independent monitoring of company compliance. Theirs is a perfectly legitimate aim. But so, too, is ours: to engage the relevant social actors in a learning experience based on identifying and promoting good practices. Social change is never linear.

Others have complained about some of the corporate participants in the Compact – whose past actions, they assert, should disqualify them. But it makes no sense for the United Nations to engage only companies that are already perfect – what would be the point? What we ask of a company is a genuine commitment to work with us; and if we have doubts about the sincerity of that commitment, the company is not invited to join the initiative.

It is also necessary to correct certain misinformation that has been spread about the Compact, particularly the notion that partici-

pating companies are free to use the UN logo. The facts are these: the UN Office of Legal Affairs strictly controls the use of the UN logo on a case-by-case basis; no authorization is ever granted for commercial purposes; and GC participants enjoy no special privilege with regard to using the logo.

Some criticisms are unworthy of a response; they are the ones that question Kofi Annan's motivations. The Secretary-General is doing what he is doing because he believes it to be the right thing. If the GC turns out not to work as intended we will adapt it, and if it is a flop it will be dropped.

Finally, there is an area of disagreement between us and some parts of the NGO community that is quite fundamental and, therefore, difficult to resolve. It concerns differing attitudes toward globalization.

When Secretary-General Annan first proposed the Global Compact in January 1999, he stated categorically that globalization, as we knew it, was not sustainable. Indeed, he predicted precisely the kind of backlash that hit ten months later at Seattle and in various venues since.

A backlash against globalization, the Secretary-General explained, would be fueled by three of its attributes. First, its benefits are distributed highly unequally, both within and among countries. Large parts of the developing world are left behind entirely; these are the countries where 1.2 billion people strive to survive on \$1 a day, or nearly 3 billion on \$2 a day.

Second, globalization is characterized by an imbalance in global rule making. Those rules that favor global market expansion have become more robust and enforceable in the last decade or two. Rules intended to promote equally valid social objectives, whether poverty reduction, labor standards, human rights, environmental quality or the control of transnational criminal activity, lag behind and in some instances actually have become weaker.

And third, there is emerging what we might call a global identity crisis. "Who is *us*?" is being asked with growing shrillness all over the world. "Who is in control of the unpredictable forces that can bring on economic instability and social dislocation, sometimes at lightning speed?" The answer, "no one," serves only to

feed fear and even paranoia – apart from the fact that it is not, strictly speaking, accurate.

The Secretary-General committed himself, and the United Nations, to help reverse these adverse attributes and consequences of globalization.

But we do not reject the phenomenon of globalization itself. Indeed, the world needs open markets. They are required to sustain prosperity in the industrialized world. And they provide the *only* hope of pulling billions of poor people in the developing countries out of abject poverty.

This view has nothing to do with the so-called Washington consensus and it is not an endorsement of laissez-faire economics. It implies acceptance neither of unfettered economic growth nor the commodification of everything under the sun. It is just a plain, irrefutable fact of life in our world of 6 billion people, half of them poor – soon to become 8 billion, with 9 out of every 10 newcomers born into extreme poverty.

Poverty has been exploding in Africa – but that is *hardly* because of *too much* globalization. According to the latest UNCTAD figures, the share of direct foreign investment allocated to Africa has now shrunk to 1.2% of the global total – 1.2% for a continent that accounts for more than ten times that fraction of the world's population. In contrast, poverty is declining in East Asia, and more modestly in South Asia, where much of the direct foreign investment destined for the developing countries has been heading.

Critics of the Global Compact have been honest with us about their concerns. Let me be equally frank and end with a grave concern of my own. I fear that the rejectionists of globalization in the North are on a collision course with the needs of the poor in the South – however inadvertent and unintended it may be. Nurtured and sustained by the greatest accumulation of wealth the world has ever known, northern rejectionists are driven by a cultural alienation from the institutions and practices that generate this wealth. That is their prerogative.

But the life-defining force haunting the world's poor is not Disneyfication; it is not McWorld. Nor is it a Nike or a Shell, whatever its other sins may have been. Nor, indeed, is it the GATT/WTO, the World Bank or the IMF, though each has committed serious policy errors over the years.

The stark reality facing the world's poor is the absence of economic opportunity, a deep-rooted inability to generate equitable and sustainable economic growth, and a scarcity of the political, economic and social institutions conducive to that outcome.

This root problem is compounded by an insufficient sense of global solidarity – in the form of faster and deeper debt relief, greater market access for the exports of developing countries, especially the least developed, and vastly expanded programs of outright grants to poor countries, targeted for poverty reduction programs.

Rejectionism will not solve a single one of those problems. Globalization can help do so – a globalization that is embedded in universal values and principles, and one that is better managed by “good governance” at national and international levels alike.

That is *our* agenda – expressed, most recently, in the United Nations Millennium Declaration, adopted by heads of state and government at the Millennium Summit in September, and reflecting the priorities laid out by the Secretary-General in his Millennium Report, “We the Peoples.”<sup>2</sup>

We invite all to work with us in making this agenda a reality.

2. Kofi A. Annan, “We the Peoples: The Role of the United Nations in the 21st Century” (New York: United Nations, 2000).