The Theory and Practice of Learning Networks

Corporate Social Responsibility and the Global Compact

John Gerard Ruggie
Harvard University, USA

Under the leadership of Secretary-General Kofi Annan, the United Nations has played an active role in promoting corporate social responsibility as one means to respond to the challenges of globalisation. The Global Compact has been Annan's major initiative in this domain. It has explicitly adopted a learning approach to inducing corporate change, as opposed to a regulatory approach; and it comprises a network form of organisation, as opposed to the traditional hierarchic/bureaucratic form. These distinctive (and, for the UN, unusual) features lead the Compact's critics to seriously underestimate its potential, while its supporters may hold excessive expectations of what it can deliver. Because organisational issues of this sort will continue to confront the search for viable global governance mechanisms for many years ahead, this paper spells out both the advantages but also the inherent limitations of the 'learning networks' approach.

- **Globalisation**
- **Corporate social responsibility**
- **Global Compact**
- **United Nations**
- **Network organisations**

John Gerard Ruggie is Evron and Jean Kirkpatrick Professor of International Affairs, Kennedy School of Government, Harvard University, Cambridge, USA. From 1997 to 2001, he was Assistant Secretary-General and senior adviser for strategic planning to United Nations Secretary-General Kofi Annan, in which capacity his responsibilities included the Global Compact.

Kennedy School of Government,
Harvard University, Cambridge,
MA 02138, USA

john_ruggie@harvard.edu

Under the leadership of Secretary-General Kofi Annan, the United Nations has played an active role in promoting corporate social responsibility as one means to respond to the challenges of globalisation. 'You do not need to wait for governments to pass new laws,' Mr Annan has said to business groups. 'You can and should act now, in your own self-interest. The sustainability of globalisation is at stake.'

The Global Compact has been Annan's major initiative in this domain. It has attracted considerable acclaim in the world's press. In the United States, it was praised editorially by the venerable *Washington Post* while the *Christian Science Monitor* lauded it as Annan's 'most creative reinvention' yet of the United Nations. At the same time, the Global Compact has generated suspicion and in some instances sharp criticism in parts of the NGO (non-governmental organisation) community and from various anti-globalisation activists. Part of the difference is explained by differing attitudes towards globalisation. Thus, what the mainstream press views as an innovative practical response to some of its challenges, critics decry as 'bluewash': providing an opportunity for the private sector to drape itself in the UN flag without really mending its ways.[1]

But even more fundamental issues are at stake. The Global Compact has explicitly adopted a learning approach to inducing corporate change, as opposed to a regulatory approach; and it comprises a network form of organisation, as opposed to the traditional hierarchic/bureaucratic form. These distinctive (and, for the UN, unusual) features lead the Compact's critics to seriously underestimate its potential, while its supporters may hold excessive expectations of what it can deliver.

Because organisational issues of this sort will continue to confront the search for viable global governance mechanisms for many years ahead, it is worth examining the Global Compact more closely as a case of things to come, spelling out both its advantages and its inherent limitations.

Below, I describe the Compact's organisational forms and the rationale behind them. But, first, I briefly place the current debates in their broader historical context.

Tina redux?

The globalisation mantra in corporate circles, at least until very recently, was the so-called 'Tina' hypothesis: 'There Is No Alternative'. But there is: Tina may prevail in the long run, but the road from here to there can be unacceptably rough.

History doesn't repeat itself; only historians do. But there is still great merit in the dictum that those who refuse to learn from the past may be condemned to repeat its errors. That is certainly true of globalisation and its consequences. Let us begin with some basic facts.

The speed and costs of global communications are plummeting to a fraction of what they were a decade earlier. The Internet? No, the laying of the transatlantic cables in 1866, which reduced the time it took to communicate between London and New York by 99.9%, from a week to a matter of minutes.

The ease of global transport is increasing by orders of magnitude. The latest Boeing or Airbus? No, the opening of the first Alpine tunnels, the Suez Canal and the Panama Canal in the late 19th/early 20th centuries.

Foreign trade accounts for a third or more of national product. Japan in the 1980s? No, Britain a century earlier. Emerging economies booming and global markets integrating, thanks to massive flows of foreign investment? Been there, done that, too, as

1 The standard critique, which unfortunately includes often-repeated factual inaccuracies, can be found in Transnational Resource & Action Group 2000.

European capital built railroads in the US, Canada, Australia and Argentina more than a century ago, and as raw materials, beef and agricultural products were shipped back to feed the industrial machines, and the stomachs, of Europe.

The era from 1850 to 1910 was the first 'golden age' of globalisation. Travellers required no passports or visas and capital flowed freely. Even more impressive, 60 million people left Europe between 1850 and 1914 to seek new economic opportunities and political freedoms elsewhere, something that is much harder to do today. And then it collapsed, horribly, into war and anarchy—followed, though not precisely in this order—by extreme left-wing revolution in Russia, extreme right-wing revolutions in Italy and Germany, militarism in Japan, the Great Depression, unprecedented international financial volatility and the shrivelling-up of world trade. Nor is that all. The social strains produced by those upheavals were so great that the world imploded into a second worldwide war in the span of a single generation. And in some respects globalisation was behind it all. How so?

Victorian globalisation was a system without popular roots and without social legitimacy. It reflected neither the needs nor the aspirations of the vast majority of ordinary people who, indeed, bore the brunt of the adjustment costs that open markets invariably produce. The demand for social protection proved irresistible, and it led, predictably, to economic protectionism—an entire generation of it.

What is the lesson? That societies will protect themselves from unrestrained market forces by whatever means they can muster.[2] The industrialised countries were slow to learn the lesson that markets must be embedded in broader frameworks of social values and shared objectives if they are to survive and thrive. When they finally did—after two world wars and a depression—they called this new understanding by different names: the New Deal, the social market economy and social democracy. But the underlying idea was the same: a grand social bargain whereby all sectors of society agreed to open markets, which in many places had become almost administered if not autarchic, but also to share the social adjustment costs that open markets inevitably produce.[3]

Governments played a key role: moderating the volatility of transaction flows across borders and providing social investments, safety nets and adjustment assistance; but all the while pushing liberalisation. In the industrialised world, this grand bargain formed the basis of the longest period of sustained and equitable economic expansion in human history, from the 1950s to the present.

Tina in trouble?

So what is the problem today? That grand bargain presupposed an *international* world; we have come to live in a *global* world. It presupposed the existence of *national* economies, engaged in *external* transactions, which governments could mediate at the *border* by tariffs and exchange rates, among other tools. But markets have gone global, leaving behind merely national social bargains. The backlash against globalisation has grown in direct proportion to the divergence between global markets and national communities.

In particular, the backlash against globalisation is driven 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

2 No subsequent account of these wrenching struggles yet surpasses Karl Polanyi's 1944 classic treatment in *The Great Transformation*.

3 In academic circles, this grand bargain is known as 'the embedded liberalism compromise'. See Ruggie 1982.

1.2 billion people somehow strive to survive on US$1 a day, or nearly 3 billion on US$2 a day; where half of humanity has never made or received a telephone call; where one-fifth of the world's people lack access to safe drinking water.

Second, the backlash is triggered by an imbalance in global rule-making. Those rules that favour global market expansion have become more robust and enforceable in the last decade or two. Rules intended to promote equally valid social objectives, such as poverty reduction, labour standards, human rights or environmental quality, lag behind and in some instances have actually become weaker. So we find ourselves in the situation where considerations of intellectual property rights dominate fundamental human rights and even human life, at least until that clash became unbearable for the world's conscience over the AIDS treatment issue in Africa.

Third, there is emerging what might be called 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 the fear and paranoia in which ugly 'isms' thrive, apart from the fact that it is not, strictly speaking, accurate.

I am not suggesting that globalisation today will end as its 19th-century predecessor did; many of the fundamentals are very different. But I would venture two predictions. One is that the present state of affairs is not sustainable. The gap between market and community *will* be closed; the only issue is how and in which direction. The world needs open markets: for business to maximise its opportunities, for the industrialised countries to sustain prosperity and for the developing countries because an open world economy provides the only hope of pulling billions of poor people out of abject poverty.

But my second prediction is that rollback, a shift away from globalisation, is the more likely outcome unless we manage to strengthen the fabric of global community.

Corporate social responsibility

That is where corporate social responsibility comes in. By itself, it cannot carry the burden of globalisation's many challenges. But the corporate sector can advance its own—and our collective—cause by embracing universal values and concerns in its own corporate sphere, and weaving them into global market relations.

Increasingly, society expects nothing less from the corporate sector. The signs of changing social expectations are not limited to the streets of Seattle or Genoa, Prague, Gothenburg or Washington, DC. Here are a few examples that hit closer to the boardroom:

- A 20-nation poll conducted by Environics International, a Canadian consultancy, finds that consumers' perceptions of companies are now determined as much by a company's social and environmental practices as by its product brands.
- The US public relations firm, Richard Edelman, in a cross-national study of thought leaders, finds that NGO 'brands', such as Amnesty or Greenpeace, enjoy greater public trust than corporate brands.
- Calpers, one of the world's largest institutional investment funds, has targeted some US$1 billion directly for socially responsible investment, and is promoting the corporate social responsibility agenda more broadly at shareholder meetings and through other means.
- And the FTSE is but the latest index provider catering to the growing number of investors who want to do good while doing well.

The message here is crystal clear. Social expectations about what corporations are and how they should behave have moved well beyond the traditional realm of philanthropy or business ethics. The name of the game today is to align the corporation behind broader social and environmental goals, or at least to make sure that actions by firms do not undermine them.

The Secretary-General's Global Compact (GC) is an initiative intended to advance global corporate social responsibility. It engages the private sector directly to work with the UN, in partnership with international labour and NGOs, to identify and promote good corporate practices based on universal principles.[4]

The GC encompasses nine such principles, drawn from the Universal Declaration of Human Rights, the International Labour Organisation's Fundamental Principles on Rights at Work and the Rio Principles on Environment and Development.[5]

Companies are challenged 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:

- To advocate the Compact and its nine principles in mission statements, annual reports and similar public venues, on the premise that, by doing so, they will raise the level of attention paid to, and the responsibility for, these concerns within firms
- To post on the GC website at least once a year concrete steps they have taken to act on any or all of the nine principles, discussing both positive and negative lessons learned and triggering, thereby, a structured dialogue among the various participants about what deserves to be labelled as a good practice
- To join with the UN in partnership projects of benefit to developing countries, particularly the least developed, which the forces of globalisation have largely marginalised

In order to initiate participation in the Compact, the chief executive officer of the company sends a letter to the Secretary-General expressing the company's commitment, a step that typically requires board approval. Since an opening event in July 2000, some 400 companies worldwide—based in Europe, the United States, Japan, Hong Kong, India, Brazil and elsewhere—have engaged in the GC. The target is 1,000 firms within three years.

Learning forum

The major criticism of the GC by the anti-globalisation front has been for what it is *not*: a regulatory arrangement, specifically a legally binding code of conduct with explicit performance criteria and independent monitoring of company compliance.

4 The GC participants include the UN (the Secretary-General's Office, Office of the High Commissioner for Human Rights, International Labour Organisation, UN Environment Programme and the UN Development Programme); the International Confederation of Free Trade Unions (ICFTU); more than a dozen transnational NGOs in the three areas covered by the GC, such as Amnesty International and the World Wide Fund for Nature; as well as individual companies and international business associations.

5 The nine 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 labour; the effective abolition of child labour; 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.

So how does the GC propose to induce corporate change? Its core is a learning forum. Companies submit case studies of what they have done to translate their commitment to the GC principles into concrete corporate practices. This occasions a dialogue among GC participants from all sectors: the UN, business, labour and civil society organisations. The aim of this dialogue is to reach broader, consensus-based definitions of what constitutes good practices than any of the parties could achieve alone. Those definitions, together with illustrative case studies, are then publicised in an online information bank, which will become a standard reference source on corporate social responsibility. The hope and expectation is that good practices will help to drive out bad ones through the power of dialogue, transparency, advocacy and competition.

Why did the Secretary-General choose this approach rather than propose a regulatory code, complete with monitoring and compliance mechanisms? First, the probability of the General Assembly adopting a meaningful code approximates zero. The only countries eager to launch such an effort at this time are equally unfriendly to the private sector, human rights, labour standards and the environment.

Second, the logistical and financial requirements for the UN to monitor global companies and their supply chains, let alone small and medium-sized enterprises at national levels, far exceed its capacity. For example, Nike, whose past labour practices have made it a frequent target of protesters, has more than 750 suppliers in 52 countries, and it is at the lower end among comparable firms in the number of factories as a fraction of its revenue base.[6] When it comes to effective regulation, there is simply no substitute for stronger national action.

Third, any UN attempt to impose a code of conduct would not only be opposed by the business community, but also would drive progressive business leaders into a more uniform anti-code coalition.

But these strictly pragmatic reasons imply that a learning-based approach is merely a second-best solution. In fact, a far stronger intellectual case can be made for it. Many of the GC's principles cannot be defined at this time with the precision required for a viable code of conduct. No consensus exists on what 'the precautionary principle' is—that in the face of environmental uncertainty the bias should favour avoiding risk—even though it was enshrined at the 1992 Rio Conference. Similarly, no consensus exists, even among advocates, on where to draw the boundaries around corporate 'non-complicity' in human rights abuses. Accumulated experience—through trial, error and social vetting—will gradually fill in the blanks. The GC learning forum provides that experience.

Moreover, the extraordinary pace of change in corporate strategies, structures and production processes makes it exceedingly difficult to specify *ex ante* the full range of performance criteria and desired practices that a code should include. In contrast, the GC learning forum helps companies to internalise the relevant principles so that they can shape and reshape corporate practices as external conditions change. Employees are turning out to be vital allies in this process.[7]

6 The following thought experiment illustrates the full magnitude of the task. A Hong Kong-based firm currently performs social audits ('Social Accountability 8000') for a number of US speciality and retail chains that source their products in China. It employs approximately 250 field technicians to monitor the production of US$1 billion in products. If we were to multiply that ratio for all US consumer product imports, the field staff requirement would amount to 55,000 technicians. That already is larger than the worldwide staff of the entire United Nations and all of its specialised agencies combined. But we would still need to add to it coverage for consumer product imports into all other countries, plus global imports from the extractive industries. The scale is mind-boggling. The escalating costs of monitoring Central American suppliers experienced by Gap, a large clothing chain, is reported in Kaufman and Gonzalez 2001.

7 A number of participating companies have set up internal websites or other discussion forums enabling employees to comment on company practices in relation to the Global Compact. A corpo-

Finally, the accumulation of experience itself is likely to lead gradually to a desire for greater codification, benchmarking and moving from 'good' to 'best' practices, including by industry leaders who want to protect themselves against any possible competitive disadvantage. Laggards will have a harder time opposing actual achievements by their peers than *a priori* standards.

Thus, there are both pragmatic and principled reasons why the GC adopted a learning model rather than regulation to induce corporate change. Nevertheless, there are certain things that such an approach cannot achieve. The fact that the GC recognises and promotes a company's 'good practice' provides no guarantee that the same company does not engage in 'bad practice' elsewhere. Indeed, it may even invite a measure of strategic behaviour. Nestlé's recent interest in the GC, for instance, undoubtedly reflects a desire to balance criticism on the breast milk substitute, including that of the UN (UNICEF). Moreover, a learning model has no direct leverage over determined laggards. They require other means, ranging from legislation to direct social action.

In sum, the GC's strengths and weaknesses both stem from its adoption of a model that promotes learning by recognising and reinforcing leadership. It helps to create and build momentum towards its universal principles, but it is unlikely to get there by itself.

Inter-organisational networks

Organisationally, the GC is an expanding set of nested networks. The five participating UN entities constitute one network. The Global Compact office in New York is by far the smallest component; its main functions are to provide strategic direction, policy coherence and quality control. The core network comprises the UN and the other participants: companies; international labour; transnational NGOs; and university-based research centres. Most of the heavy lifting gets done here.

The Global Compact has triggered several complementary regional, national and sectoral initiatives. Typically, they take a subset of interested GC participants beyond its minimum commitments. For example, Norway's Statoil and the International Federation of Chemical, Energy, Mine and General Workers' Unions recently reached an agreement within the GC framework whereby Statoil will extend the same labour rights that it applies in Norway, as well as health and safety standards, to all overseas operations, including Vietnam, Venezuela, Angola and Azerbaijan.

Finally, a number of initiatives intended for other purposes have associated themselves with the GC. Such business associations as the International Chamber of Commerce, Prince of Wales Business Leaders' Forum, International Organisation of Employers and World Business Council for Sustainable Development support the GC in various ways. The most unusual of these partnerships is with the multi-stakeholder Committee for Melbourne, which is incorporating the GC into the strategic plan it is developing for that Australian city.

Accordingly, the Global Compact exhibits many of the defining attributes of inter-organisational networks (IONs), which should be better understood by critics and advocates alike.[8]

- IONs are formed by autonomous organisations combining their efforts voluntarily to achieve goals they cannot reach as effectively or at all on their own. They rest on

rate-led Scandinavian workshop on diversity in the workplace resulted from one of these. On 'internal branding' of this sort, see Stamler 2001.

8 See Chisholm 1998. For a discussion of network-based organisations in the context of global public policy, see Reinicke and Deng 2000.

a bargain, not coercion. The GC's underlying 'bargain' is that the UN provides a degree of legitimacy and helps to solve co-ordination problems, while the companies and other social actors provide the capacity to produce the desired changes.

- IONs typically come into being to help their participants understand and deal with complex and ambiguous challenges. They are inherently experimental, not routine or standardised. Few challenges are more complex and ambiguous than internalising the GC's principles into corporate management practices.
- IONs 'operate' as shared conceptual systems within which the participating entities perceive, understand and frame aspects of their behaviour. But the existing actors do all the doing that needs to be done. The GC creates no new entities, but is a framework for normatively co-ordinated behaviour to produce a new collective outcome.
- IONs must be guided by a shared vision and common purpose. The Secretary-General is responsible for sustaining that vision and ensuring that network values and activities are compatible with it.
- IONs are loosely coupled organisational forms, resting on non-directive horizontal organising principles. Its participants meet in formats and frequencies required to conduct their work.

The major advantage of the GC's network approach is its capacity to respond to the complex and rapidly changing environments that the UN seeks to affect. The UN otherwise lacks that capacity, as do governments, firms and civil society organisations acting alone or in a different format.[9]

Again, the chief weakness is the same as its main strength. It *is* a network of autonomous actors, each with different interests and needs that intersect only partially. Criticism of the GC for partnering with business fails to appreciate the advantages of inter-organisational networks. But, by the same token, anyone who sees in the GC the cure for globalisation's many ills does not sufficiently grasp the fragile basis of all such networks.

The business of business

At this point, a business leader might well ask, why me? Isn't the business of business—well—business? Shouldn't governments take care of governance gaps? Indeed, sceptics of voluntary initiatives might well ask the same questions.

Of course, governments should govern. Voluntary initiatives in corporate social responsibility are no substitute for effective action by governments, alone or in concert. Indeed, governance failures—the unwillingness or inability of governments to live up to their own commitments—are among the main reasons that the consequences of globalisation are so painful.

But society finds itself in a bit of race against the clock. Globalisation is operating on Internet time, while governments do not and probably cannot. Moreover, by definition, no government has full and legitimate global reach, which means they have to engage in intergovernmental negotiations, the outcomes of which are often determined by the lowest and slowest common denominator.

9 For example, the Global Sullivan Principles for corporate social responsibility, a partnership of American firms and some NGOs, lacks the social legitimacy of the UN. As a result, the effort has picked up little support beyond the United States.

So society increasingly looks to the business community to couple its new global rights with new global responsibilities. But, beyond that, it is actually good business to step up. The most basic rationale is the protection and promotion of a company's brand in the face of new social expectations. Increasingly, as noted, it pays for companies to do 'good' things—and to be seen to be doing 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. Think of Nike, or Shell. Others want to make sure they do not repeat the errors their peers have committed; BP Amoco is working hard in Angola to avoid Shell's errant ways in Nigeria.

Some companies have come to view global corporate social responsibility as a natural extension of CSR in their home countries, as one of the rules of the game in the new global marketplace. It is probably no coincidence that the earliest of the first movers to support the Global Compact were companies based in Scandinavia. 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 with monetary rewards alone. In these cases, more elevated social purposes are becoming part of corporate culture.

In the environmental area, companies have discovered entirely new profit centres and developed entirely new businesses in response to the quest for greater 'eco-efficiency': squeezing more use out of raw materials in the production process, as well as out of its waste by-products. The somewhat broader concept of life-cycle management—expanding the search for these efficiencies further upstream and downstream—is also beginning to take root.

Finally, business has collective interests that are furthered by adopting an active global CSR posture. Quite simply, the more effective the CSR, the less the pressure will be to accomplish the same ends by other—and potentially far less friendly—means. The alternatives include having the whole bundle of social and environmental issues thrown into the World Trade Organisation, regional trade pacts or national trade legislation, where they would become part and parcel of the tit-for-tat of a new protectionism.

In short, *business* created the single global economic space; business can and must help to sustain it. And corporate social responsibility—through the Global Compact or some other vehicle—offers one viable and vital approach.

Conclusion

The Global Compact seeks to weave universal principles into global corporate behaviour. 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 behaviour the GC seeks to shape; labour, 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.

It is a voluntary initiative intended to induce corporate change by identifying and promoting good practices. And it does so through a network form of organisation.

The Compact is not the only way to achieve those aims. But it does constitute a prototype of one way, the strengths and weaknesses of which need to be better understood by analysts and activists alike because it will become a more prevalent response to the challenge of closing global governance gaps in the years ahead.

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