HARVARD Kennedy School
JOHN F. KENNEDY SCHOOL OF GOVERNMENT

A.SK SOCIAL SCIENCE AWARD 2017
WZB BERLIN SOCIAL SCIENCE CENTER
ACCEPTANCE SPEECH
JOHN G. RUGGIE
14 OCTOBER 2017

I am deeply honored by this award, allowing me to join the extraordinary group of social scientists who have come before me. And I want to express a very special thanks to Shu Kai Chan and Angela Chan who established the A.SK award, demonstrating their generous support for the social sciences, and their belief that good social science should lead to human betterment.

I sense that this prize recognizes not only my academic and policy work but also the larger message that it represents: the imperative of addressing root causes of the backlash against globalization – and in some places modernity itself— by people who feel they have been left behind or were never touched by the benefits of globalization, and who believe they carry a disproportionate burden of the disruptive social change and inequalities it has wrought. They live everywhere, in the Global North as well as the Global South.

Of course, if I had ready-made solutions the world wouldn't be in the mess it is in. Still, it may be useful to sketch out a conceptual framing from my research on the theory and practice of global governance, and to describe two closely related UN initiatives for which I had responsibility. Doing so may provide a measure of insight and possibly guidance for the struggle we face.

The relevant academic work began when I tried as a young scholar in the early 1980s to understand better how the capitalist countries learned to combine the efficiency of markets with the broader values and institutional practices of community that socially sustainable markets themselves require in order to survive and thrive.

That lesson was not learned easily. It took the collapse of the Victorian era's variant of globalization—followed by, though not precisely in this order, World War I, extreme left wing revolution in Russia, extreme right wing revolutions in Italy and Germany, militarism in Japan, unprecedented international financial volatility, the shriveling of world trade, and the Great Depression. Nor was that the end of it. The social strains produced by those upheavals were so powerful that the world descended into yet a second world war in the span of a single generation.

When the lesson finally did take root, the new social understanding was described by different names in different countries: the New Deal state, 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 international markets, which in some cases had become heavily administered if not autarchic in the 1930s, and also to share the social adjustment costs that open markets inevitably generate.

Governments played a key role in enacting and sustaining what I called the "embedded liberalism" compromise. The liberalism part consisted of progressively reducing barriers to the flow of international transactions. And the embedded part included moderating the volatility of those transaction flows and providing social investments, safety nets, and adjustment assistance to manage significant socio-economic disruptions caused by the move to greater openness. The compromise was enshrined within a framework of multilateral principles, norms, and institutions. And it produced a long and equitable period of economic growth in the capitalist countries.

Yet even as I was writing my first academic paper explaining this transformation, I realized that the grand compromise was beginning to fray. And I predicted that what later became known as neoliberalism would emerge as the dominant ideational, normative and institutional template of economic governance. And so it did.

In the process, the commitment to domestic policies to help offset the adverse effects of international liberalization steadily declined in favor of building global systems. This was particularly so in the Anglo-American world, sowing seeds for movements that later led to Brexit and Trump.

Of course globalization has produced significant positive results for the world. But it has also created a gaping scale mismatch: a mismatch between the scope and impact of economic forces and actors, on the one hand, and the capacity of societies to manage their adverse consequences, on the other hand. Shared values and institutional practices to embed global economic forces and actors remained weak. In some areas, including workers' rights and bargaining power, they actually became weaker.

My academic work began to focus on large-scale systems change—how does it come about, how can positive trends be amplified and negative ones contained or even reversed? What do history, sociology, and other disciplines have to say about this big challenge? Just then, duty called.

Kofi Annan took office as UN Secretary-General in January 1997. He invited me to join his team as Assistant Secretary-General for Strategic Planning. I had a broad range of responsibilities, including introducing the idea of the Millennium Development Goals. But because he shared the view that business needed to play a far greater and more positive role if globalization was to be socially and environmentally sustainable, I was given an unusual opportunity to help develop UN initiatives to address this challenge.

In 1999, at the height of this latest wave of globalization, Annan both warned and challenged the assembled business and political leaders at the World Economic Forum in Davos. This is what he said:

> History teaches us that such an imbalance between the economic, social and political realms can never be sustained for very long…Our challenge today is to devise a social Compact on the global scale, to underpin the new global economy.

But here is the problem: constructing such a compact on the global scale is infinitely more difficult than it was at the national. There is no global government. Authority is in the hands of individual states, with only a thin overlay of international law and institutions. And states were moving in the opposite direction, so any proposed regulation at that time would have fallen on deaf ears. That led us to engage business itself as the immediate focus of our attention.

We called the first initiative the Global Compact— more as a signal of what was necessary than a specific goal that was imminently achievable. The Compact was launched in 2000 with a mere 44 corporate participants plus a handful of representatives from civil society and workers organizations. At the global level today, it has more than 12,000 institutional participants. They include companies, labor organizations, civil society, investors, business schools and even cities, such as Bonn. The Compact has also generated national networks in more than 60 countries, including all major emerging markets.

Here are the drivers of change built into the Compact. It was conceived as a values-based platform with three core functions: a learning forum, an incubator for innovative initiatives, and a means to involve business in contributing to core United Nations.

As a learning forum for all stakeholders, the Compact seeks to establish and promote shared understandings of responsible business conduct by linking that concept to core UN values in human rights, labor standards, environmental precaution and anti-corruption. In his 1999 Davos address Annan urged global business leaders, saying: "Don't wait for every country to introduce laws. You can use these universal values as the cement binding together your global corporations, since they are values that people all over the world will recognize as their own."

Having companies learn how to do that involves stimulating new cognitive frames, new ways of thinking and talking about issues at hand, and then acting on that understanding. Applied to the concept of responsible business conduct, the minimum step is error correction, such as a company adding new elements to its policies or codes. A more advanced step involves making changes in the company's organizational routines, incentives and performance standards. Most ambitious is a paradigm shift whereby a company becomes a norm entrepreneur in its own right by developing socially inclusive and environmentally sustainable business models, and driving transformative change in its sector. The price of admission to the Compact was a commitment to undertake the first step. The hope was that firms would gradually move up the ladder, as indeed the leading firms have.

As an incubator, the Global Compact has generated a number of initiatives that then took on an independent life of their own. One example is the Principles for Responsible Investment. This is a network of nearly 1,700 institutional investors from over 50 countries, representing $65 trillion under management. Signatories make three commitments: first, to incorporate environmental, social and corporate governance criteria (ESG for short) into their investment analysis and decision making; second, to being active owners and including the same commitments into ownership policies and practices; and third to seek ESG disclosure by the companies in which they invest.

Finally, as a business engagement platform, the Compact has promoted public/private partnerships between the UN and businesses in pursuit of UN goals. An early and still thriving example is the partnership between Deutsche Post DHL and the UN humanitarian relief program. The UN deals with governments while DHL employs its core competency in logistics to help support disaster preparedness and response efforts. Today, a central focus of the Compact is promoting business support for the Sustainable Development Goals.

In sum, while we have not achieved a “global compact” in the literal sense of the term, the UN Global Compact has had impact in the desired direction. On the eve of the Compact’s fifteenth anniversary in 2015 a Norwegian consultancy conducted a survey of corporate participants of how they had been affected by their involvement in the Compact. It found that 60 percent reported being “motivated to advance broader UN goals and issues (e.g., poverty, health, education)”; two-thirds reported that the Compact is “driving our implementation of sustainability policies and practices”; and nearly half said it is “shaping our company’s vision.”

The other UN initiative cited in the A.SK award is the UN Guiding Principles on Business and Human Rights. It built on the Compact methodology but moved beyond broad values into the realm of more specific norms, standards and practices for states and businesses alike.

That journey began in 2005. A UN expert group’s draft of a treaty-like instrument to govern multinational corporations under international human rights law was rejected by governments. Instead, they asked the

Secretary-General to appoint a Special Representative to review business and human rights challenges and offer recommendations. I had returned to academic life but Annan asked me to serve in the post while I continued to teach at Harvard—needless to say, on a reduced teaching load.

A foundational premise of the Guiding Principles was that shaping global corporate conduct actually involves three distinct governance systems. The first is the traditional system of public law and governance, domestic and international. Important as it is, by itself it has been unable to do all the heavy lifting on this and many other global challenges. The second is a system of civil governance, involving stakeholders affected by business enterprises and their representatives, and employing such social compliance mechanisms as advocacy campaigns, law suits and other forms of pressure, but also partnering with companies to induce positive change. The third is corporate governance, which internalizes elements of the other two as risks, constraints and opportunities.

The intellectual and policy challenge was to construct a conceptual, normative and policy framework whereby the three governance systems become better aligned in relation to business and human rights, compensate for one another's shortcomings, and play mutually reinforcing roles from which cumulative change can evolve over time.

Let me give you an example. Under the Guiding Principles companies are required to know and show that they respect human rights. The means whereby they are enabled to do that is to conduct effective human rights due diligence: essentially, assessing and addressing the adverse human rights impact of what they do. This has led to an important degree of alignment among the three governance systems. Why? Because for business, human rights due diligence is an effective tool to manage the risks of causing or contributing to human rights harm, and the resulting reputational, operational and legal consequences. For states, requiring companies to conduct human rights due diligence is a means to meet their own obligation to protect human rights. And for affected individuals and communities, having companies conduct adequate human rights due diligence reduces the incidence of human rights harm in the first place, as well as engaging companies in mitigation and remedy where it occurs.

Another foundational premise of the Guiding Principles that the job of implementation was far too big for the UN alone. As the saying goes, if you want people to be in on the landing with you, they have to be there at take-off. And so from the start I worked with other standard setting bodies, such as the EU, OECD, International Standards Organization, International Finance Corporation, and ASEAN; with global business associations and individual companies; and with NGOs and workers organizations. This approach paid off. Each has incorporated elements of the Guiding Principles into its own missions and programs, triggering cascading effects that continue to spread well beyond UN precincts, deeply into the local.

As a result, the corporate responsibility to respect human rights is now established as an international social norm. And human rights due diligence is emerging as the standard practice of how to comply with it.

To date, nearly forty governments are developing or have already issued national action plans for implementing the Guiding Principles. They include Germany. Now the focus is on doing it. The German National Action Plan includes a clever provision. The government has given firms with more than 500 employees until 2020 to demonstrate that they have an effective human rights due diligence system in place. If fewer than 50 percent meet the goal then the government may consider additional measures. France has adopted a human rights and environmental due diligence law for its largest companies, drawing on the Guiding Principles; the UK a Modern Slavery Act; the Netherlands is considering such legislation on child labor. China has advised the overseas operations of its mining industry to follow the Guiding Principles throughout the lifecycle of projects. And as we speak, negotiations are taking place in Geneva on the draft elements of a possible business and human rights treaty.

There is also considerable movement on the investor front. ESG investing—which takes into account environmental, social, and corporate governance criteria—is growing rapidly, which has impressed even the typically cynical financial press when they write about such issues, including *Bloomberg*, the *Economist* and the *Financial Times.* Human rights are at the core of the "S" in ESG, and are closely connected to the other two.

Law societies have become involved. For instance, the International Bar Association has adopted an official position on what the Guiding Principles mean for the practice of business lawyers. And the Institute for Internal Auditors has backed a recent guidance for that profession on the evaluation of companies' human rights policies and processes.

Perhaps the most unusual development involves FIFA, the international governing body of football. Apart from corruption issues, FIFA faced considerable pressure from NGOs and commercial sponsors for human rights violations related to its tournaments, including the FIFA World Cups in Russia and Qatar. Based on advice I was asked to provide, FIFA has adopted a new statutory provision to respect all internationally recognized human rights, established a Human Rights Advisory Board, and is including human rights criteria in future World Cup bidding requirements. UEFA's EURO 2024 tournament has a similar provision.

For my part, in addition to teaching the future generation of leaders, I continue to serve proudly as Chair of a New York-based nonprofit called Shift. Founded by members of my former UN mandate team, Shift is the leading center of expertise on the UN Guiding Principles, working with companies, governments, civil society, investors and others to bring about a world in which business gets done with respect for people's fundamental welfare and dignity.

I am also excited about having recently been asked to serve on the board of directors on an Anglo-German asset management firm called Arabesque, which seeks nothing less than to disrupt investor expectations and behavior and to push them in the direction of environmental and social sustainability while producing top-notch financial returns.

Let me draw these remarks to a close. Clearly, it is far too soon to speak of the socially embedded corporation. But it is also clear that an evolving regulatory ecosystem is emerging in the business and human rights space. The two UN initiatives, the Global Compact and the Guiding Principles on Business and Human Rights, demonstrate that change at scale is possible. And they illustrate analytically grounded, dynamic and cumulative approaches toward achieving it.

Ultimately, the lesson that needs to become second nature to us all, whether politician, corporate leader or citizen, is this: there can be no viable society without a sustainable business sector, and there can be no viable business sector that does not respect and contribute to the social fabric in which it operates. To quote Kofi Annan one last time: "My friends, the simple fact of the matter is this: If we cannot make globalization work for all, in the end it will work for none."

John G. Ruggie is the Berthold Beitz Professor in Human Rights and International Affairs at the Harvard Kennedy School of Government, Affiliated Professor in International Legal Studies at Harvard Law School, and a Fellow of the American Academy of Arts & Sciences. He also chairs the non-profit Shift. *From 1997-2001he served as UN Assistant Secretary-General for Strategic Planning, and from 2005-2011 as Special Representative of the Secretary-General for Business and Human Rights, in which capacity he produced the UN Guiding Principles on Business and Human Rights. His book reflecting on that experience,* Just Business: Multinational Corporations and Human Rights *(W.W. Norton), has been translated into Chinese, Japanese, Korean, Portuguese and Spanish.*

The A.SK Award of 100,000 euros is made possible by an endowment from the Chinese entrepreneur couple Angela and Shu Kai Chan. Since 2007, it has been awarded every two years by the WZB Berlin Social Science Center. It honors researchers from the social sciences who have made an important contribution to political and economic reforms. Previous awardees include Sir Anthony Atkinson, Martha Nussbaum, Transparency International, Paul Collier, and Esther Duflo.