The Global Environment & Multinational Corporations

Nazli Choucri

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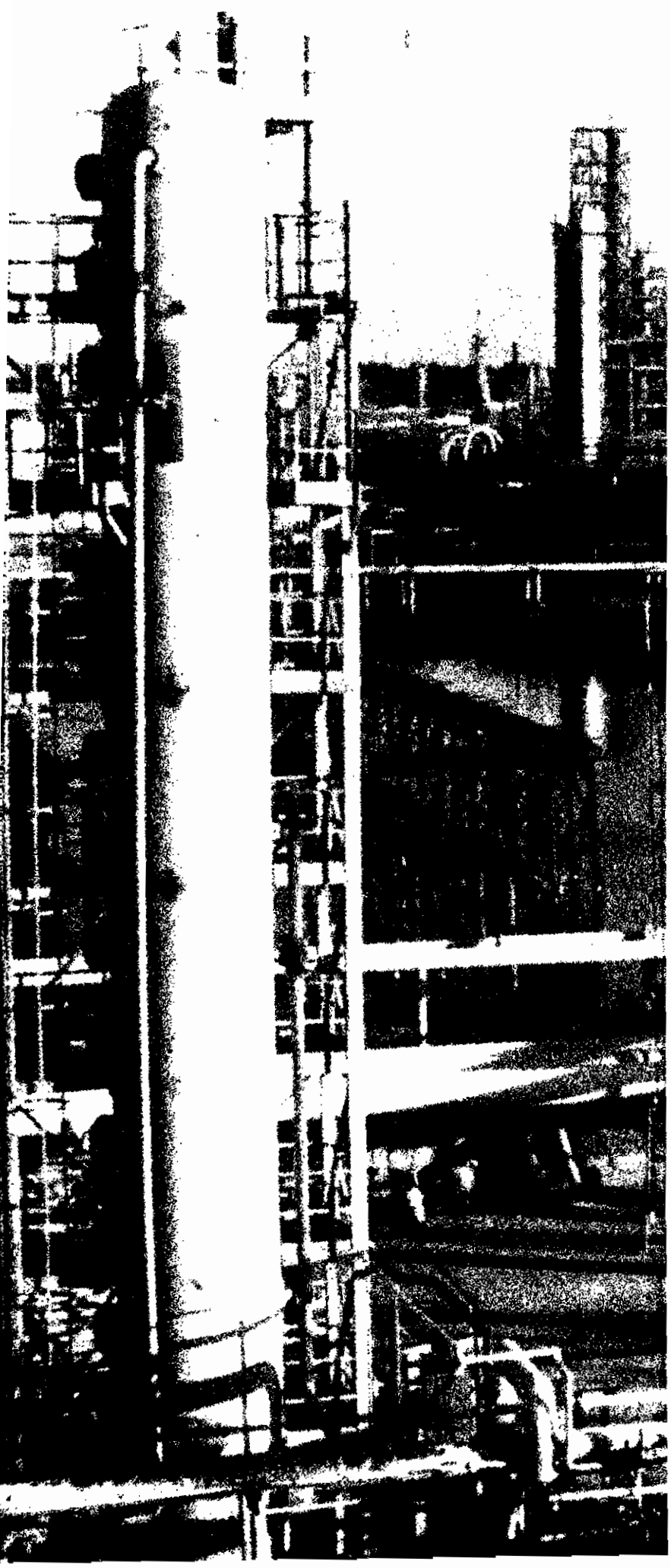


The Global Multinational

BY NAZLI CHOUCRI

THE fact of human intervention in ecological processes is not in doubt. Despite uncertainties and continued controversy, human influences on the global environment appear significant. It is no longer plausible to defer including environmental factors in corporate strategies until scientific consensus is reached.

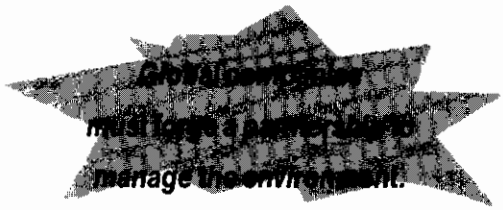
But among environmentalists and policymakers, the responses to environmental change have emphasized underlying processes such as energy use and population growth, largely ignoring institutions, agents, and markets. This omission could impede innovation and forestall prospects for managing the world's environment.

In the context of environmental change, multinationals, like all of us, are part of the problem. Since multinational corporations conduct the bulk of the world's economic activity, they are the major environmental actors as producers, managers, and distributors. By necessity, these firms engage in a wide range of hazardous and pollution-intensive activities.

Corporations are also central to the solution. Global enterprises traditionally shaped both technological change and commercialization worldwide. They are the innovators and the transmitters of technology, as well as the source of commercial ideas. Their actions and strategies are crucial in determining the environmental landscape. It will be corporations—their technological capabilities and edge—that shape new modes of economic performance.

Indeed, the multinationals will be in the spotlight. They will be subject to na-

Environment & Corporations

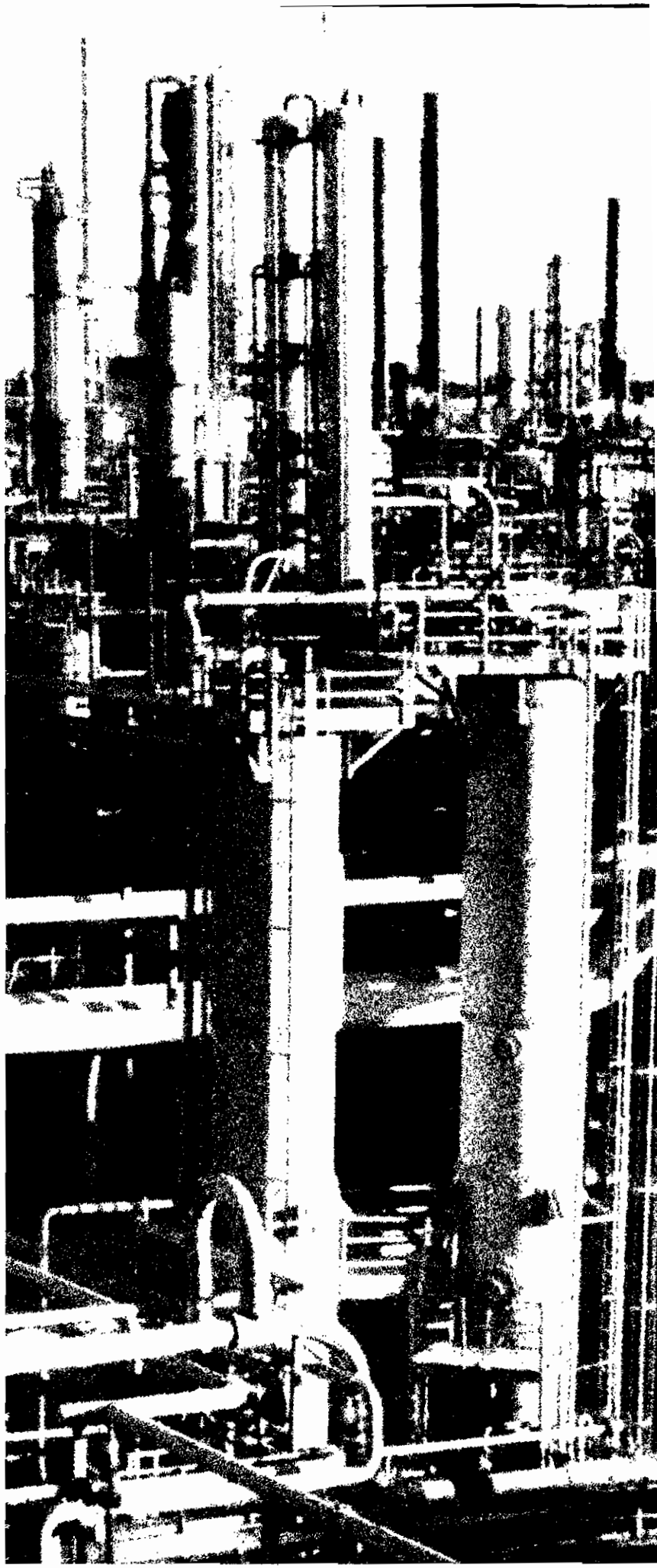


tional and international regulation as private groups use evidence of environmental mismanagement to pressure governments to limit corporate behavior. An environmental ethos already affects legislation everywhere, and as problematic as regulation, control, and litigation may be, few businesses could withstand an anti-nature reputation and the loss of goodwill.

These factors are transforming the international marketplace. Almost overnight, global companies have confronted concerns well beyond the pale of conventional strategic planning—concerns that were certainly not identified in business school. The question is not whether to respond to the new business context but how; not whether such action will reshape competition but how fast and how effectively. This is true across the board, in all sectors, in all facets of global business.

Global firms that recognize and accurately assess the challenges will see important—possibly unprecedented—opportunities to reorder priorities, take advantage of new possibilities, and reassess potentially obsolete corporate strategies. But to take advantage of opportunities, corporations, irrespective of the sector, must adopt a strategy for managing interactions with nature, including a comprehensive assessment of all interactions between investments and the environment.

To the extent that firms act voluntarily, they will maintain an advantage. To the extent that environmental practices must be regulated, legislated, and controlled, companies will find themselves on the defensive.



The Politics of a Global Environment

The contours of a global environmental consensus have slowly emerged over two decades. Between the first world environment conference, held in Stockholm in 1972, and the conference on environment and development, to be held in Brazil next year, the international community has been stiffening its resistance to industrial practices that threaten the biosphere.

While moral suasion is hardly a serious consideration in business decisions, it can be poor practice to ignore sentiments that define what is legitimate. As the Valdez incident has shown, no company can brush aside outrage. The Bhopal accident and its aftermath add a further dimension to the problem: the developing world is learning that even global companies can be held liable in a court of law to a vague environmental morality.

Moreover, traditional ways of viewing the international business environment—nations, borders, markets—blur as degradation crosses borders, transmitted by winds, currents, and other natural processes. Thus, the entire theory of international corporate liability is subject to revision as issues of compensation and environmental protection take shape. Parent-company liability may be extended in a variety of ways, such as requiring firms to warn against risk of hazardous activities or materials. Companies may become liable for defective, damaging, or polluting products by any part of the enterprise, including marketing and distribution networks far away.

Ethos, environment, business, and policy are converging as environmental legislation becomes the norm. Even nations that are reluctant to act are being pushed to respond by international agencies, private environmental groups, and scientific organizations. Developing countries such as Egypt that have traditionally ignored the environment are feeling that pressure. The United States cannot ignore groups like the World Resources Institute, the World Wildlife Fund, and the Sierra Club, while Greenpeace and others have had a profound impact on European politics. In Eastern Europe, the need for cleaning up the environment is apparent—the pollution generated under efficient (and democratic) conditions, like that created under inefficient (and authoritarian) regimes, reinforces the emerging consensus.

European countries in particular are showing signs of environmental concerns at the polls, and it is difficult to envisage any party winning an election on a platform opposing or even ignoring the environment—or, more relevant for business, on a platform of expanding rather than restricting corporate activities. Even in the Soviet Union, five major "green fronts," including the All-Union Movement of Greens of Komsomol, the Communist Party's youth organization, combine environmental concerns with opposition politics.

International forums also reflect this growing attention to the environment. Incontrovertible proof of this is embodied in formal efforts—such as the World Commission Report of the U.N. General Assembly, *Our Common Future*—to devise a global strategy for environmental protection.

Global firms simply have no easy way around the emerging ethos, since environmental degradation derives from diverse and legitimate sources. For example, energy is crucial and carbon emissions are ubiquitous. There is a fundamental tension—even war—between technology and ecosystems. In reality, then, "environmentally benign" means less damaging rather than not damaging, and good business demands forthright recognition of this fact. Global corporations can at best seek to mitigate the most severe effects of pollution and to channel the others in an acceptable direction.

The political givens create the criteria for realistically assessing profit possibilities. Three types of global corporation—the oil, chemical, and construction industries—illustrate the basic dilemma: almost any action generates environmental effects that can only be reduced, managed, minimized, or contained. These three industries show different aspects of ubiquitous environmental degradation, and all confront the inevitability of major corporate response.

The Oil Industry: Responding to Market Signals

The oil industry was long insulated from any constraint—from governments or the public. The near-total absence of environmental codes in overseas exploration and development—let alone transport by ship or land—gave the industry free rein. No one, anywhere, had the power to seriously limit the ecological consequences of petroleum extraction, production, processing, or transport. Not until the price shocks of 1973 did the industry feel any significant limitations.

That has changed. The public has become concerned about such mishaps as spills, which are inevitable in transporting oil. The Valdez incident can't be dismissed as an unfortunate and inadvertent oversight. In the United States, a spill occurs each day on average, and the number is rising. The object is not to assign responsibility—moral or legal—but to show how ubiquitous environmental degradation is and how salient it has become as a business factor.

Thus, the U.S. oil industry is coming under growing scrutiny from both public authorities and private groups. In other countries, the process is much slower—it is difficult to imagine Saudi or Venezuelan authorities considering environment relevant to

NAZLI CHOUCRI is a professor of political science at MIT and associate director of the Technology and Development Program. She is author of International Energy Futures: Petroleum Power, Prices, Payments *and co-author of* The Challenge of Japan Before World War II and After *(in press) and* Global Change: The State System and International Politics *(in press).*

petroleum—but already private and public interest groups are pushing for action. The argument will be made that the numbers speak for themselves. For example, the Persian Gulf states have remarkably high per-capita carbon emissions, a fact that can be traced to both an energy-intensive lifestyle and the consequences of hosting large-scale oil operations for the world.

Global oil enterprises may find themselves engaged in public-relations wars with potentially high legislative and regulatory stakes. The hazards to corporate bottom lines are obvious: everyone knows that higher environmental standards will bite into profits. But what opportunities will the oil industry find? Exxon, Texaco, and Chevron, among others, have charged remarkably high environmental costs against profits—an inevitable new fact of corporate life. Phillips Petroleum's donation of $625,000 over five years to preserve wetlands in the Southwest may be more prophetic of things to come, with environmental strategies including preventing damage as well as repairing it. And Conoco, a subsidiary of Du Pont, has ordered two double-hull tankers designed to reduce the chances of spills, a radical departure in this industry.

There are business opportunities beyond those for public-relations firms and clean-up technology. These involve creating and shaping markets at the technological frontier in each phase of the oil industry—from exploration to transportation and utilization. Both on-the-shelf and beyond-the-horizon technologies could play a role.

Will such moves reshape the competitive arena? In retrospect, the petroleum industry has generally responded to market signals—for example, by exploring new kinds of contracts when the negotiation power of host countries has grown. In the same manner, voluntary environmental codes and guidelines developed by the industry could preempt the most demanding legislative constraints. A preemption strategy may be especially valuable if the industry is to protect itself from legitimate charges of irresponsibility.

The Chemical Industry: Technology's Dual Role

Like oil, the chemical industry faces ubiquitous environmental problems, but global chemical companies are positioned more precariously with respect to the environment: they are already subject to international regulations sanctioned by formal intergovernmental agreement.

One reason is that accidents like that in 1984 at Union Carbide's Bhopal pesticide plant have dramatized the potential environmental consequences of the industry. Bhopal drew attention to the wide span of hazardous chemical operations and highlighted Union Carbide's weak environmental protection policies. In a business climate already strained because of a massive 1976 chemical explosion at a factory in Seveso, Italy, owned by the Swiss firm Hoffmann-La Roche, Bhopal augured poorly for the whole industry. The Seveso blast, grossly mismanaged by Italian authorities, was only reported 27 hours after it happened, and then as an "herbicide cloud." Waste disposal was contracted to a French firm, and the toxic materials surfaced in France seven years later.

The involvement of Du Pont and other chemical companies in negotiations over CFCs shows that technological innovation is dual-edged. It can both generate hazards and yield less hazardous alternatives.

Chemical companies are also essential to solving environmental problems, and they are by far the most visible multinationals in deliberations to do that. Two instances of regulation illustrate both trends.

In March 1989, some 93 countries attended negotiations for the final version of the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal. This protocol, which resulted from determined pressure by private environmental and scientific groups, attempts to govern both the companies that generate hazardous wastes and the states they pay to accept the materials.

The effectiveness of the protocol is less important than the effort itself to place limits on the free market. Neither the "buyer" nor the "seller" is totally free to exchange hazardous materials. Both are bound by an agreement to which neither may have been a party.

Already, nearly 50 countries have established nation-

The construction industry has yet to think seriously about the environment, lamentable as that may be for an industry whose purpose is to transform natural systems into built ones.

al legislation regarding the hazardous-waste trade, and the Basel Convention binds most of them at the global level. Such agreements could give multinationals less flexibility in locating their activities, compromising the ability to rapidly shift production from regions with high environmental standards to those with low ones.

The Basel Convention is a natural outgrowth of market conditions in some ways. The number of countries that import or export hazardous waste has grown markedly over the past decade. About 3 million tons of toxic waste cross European boundaries annually. West Germany exported its wastes to East Germany, and the Federal Republic now finds itself in the anomalous position of having to clean up these same sites. And while efforts to handle hazardous-waste problems at first focused on reducing exports to developing countries from industrial nations, the transport of wastes among industrial states is also extensive. The United States alone sends about 80 percent of its waste to Canada and Mexico. Great Britain has continually increased its imports of hazardous waste. All of this complicates the simple view that it is always rich nations dumping on poor ones.

The chemical industry has faced regulation to control ozone-depleting CFCs as well. While industrial societies are the principal consumers of CFCs, exports to developing countries are coming under scrutiny with or without the participation or consent of potential "buyers."

The 1987 Montreal Protocol to reduce CFC use is global both in recognizing a class of environmental problems and in establishing the need for worldwide efforts to resolve them. In 1990, the protocol was revised and more countries signed it, suggesting an expanded role for intergovernmental agreements of this sort.

The Montreal Protocol is part of an evolving framework for managing environmental degradation. This framework will render investments and strategies subject to scrutiny and make firms partners—willing or otherwise—in global management. Global corporations will have to deal with pressure from private and public environmental interests. Already consumers, companies, and governments are trying to bargain, and issues of technology transfer, cash transfer, and other forms of compensation are taking shape.

Private groups are more central to CFC talks than they were to the negotiations for the Basel Convention. The participants in the informal but critical discussions leading to the Montreal Protocol included 55 states and many transnational public interest groups and scientific organizations, as well as formal regional and international institutions and chemical companies, notably Du Pont. The signatories were governments, to be sure, but the participants in the emerging bargain varied in size, interest, representation, national jurisdiction, and institutional affiliation. In this respect, the protocol is unprecedented. Chemical companies can neither ignore nor control that alignment of interest. It consists of too many parties that, in the aggregate, are too influential.

As CFCs show, technological innovation is dual-edged: it can both generate hazards and yield less hazardous alternatives. For example, a joint venture between Du Pont and Merck, announced in July 1990, presages business as well as environmental opportunities in the chemical industry. Merck, the world's largest pharmaceutical company, has a reputation for environmental responsiveness. Du Pont and Merck could jointly develop a strategy to influence regulatory standards for the chemical industry worldwide. If they do not, others will do it for them.

Whatever the outcome of efforts like that of Du Pont and Merck, the odds are excellent that growing con-

cern for codes, protocols, and environmental responsiveness makes the search for places with lax laws difficult if not impossible. The result will be something of a level playing field, with global companies all subject to similar constraints. Under these conditions, only a foolhardy CEO would ignore environmental issues.

The Construction Industry: A Global Future

The construction industry's dilemma is in many ways even more severe. The problem is this: building physical structures invariably means dislocating natural systems. All facets of the industry clash with nature—from harvesting building materials to site preparation, transportation, actual construction, and the disposal of residual materials. Dislocations cannot be avoided; at best they can be managed.

In industrial societies, construction has already changed the environment in major ways. Here the challenge is to repair, upgrade, and expand structures without significantly altering the environment further. But for developing countries, the problem is just beginning, and it is in these markets that the industry envisages its most extensive expansion. A 1977 Bechtel memo on "international job strategy" suggests five countries in which "business-development positioning should begin or be intensified"—Nigeria, Malaysia, Algeria, Indonesia, and Iraq.

However, construction firms with Bechtel's scope are rare. Unlike the oil industry, construction has traditionally been local, tied to local investments. Even so, today's technology and resource needs, managerial skills, and corporate strategies all lead toward globalization. And while global construction corporations have yet to encounter the legislative, political, or moral constraints of the environmental ethos, it is inevitable that they will. A recent "Bechtel Briefs" lists such business problems in Taiwan as a labor shortage and clogged roads, but goes on to note that "it is perhaps environmental neglect that causes the greatest anxiety."

International environmental groups are already braced for encounters with global construction. In the confrontation between those who desire to build and those who oppose it, the governments of developing nations will be in an anomalous position: they must develop their infrastructures but can't be viewed as declaring war on nature.

These governments are already beginning to see some way out by exploring the bargaining possibilities inherent in environmental protection. For example, a wide range of debt-for-nature swaps are reducing the burden of past financial commitments and may free resources for meeting more immediate social needs. Similarly, nature-for-technology swaps may be negotiated to facilitate access to less polluting technologies. This is especially important in energy, where the potential for conservation and more efficient technology is extensive. In developing countries, such efforts may target reducing both carbon emissions and the rate of deforestation.

Still, the construction industry has yet to think seriously about the environment, remarkable as that may be in an industry whose purpose is to transform natural systems into built ones. But the environment clearly must become a salient factor in strategic planning for the construction industry in the very near future. Like the oil industry, construction faces important opportunities for staying ahead of environmental constraints and for shaping the way in which national and international bodies address these issues. It may well be that pollution prevention would pay for itself through reduced need for waste disposal. At a minimum it could reduce liabilities. Bechtel subsidiaries are working with Taiwan's Environmental Protection Agency on projects ranging from solid-waste disposal to noise abatement.

Implications for Multinationals

If a firm is to compete, it cannot misread the signals of the global environmental ethos and conduct "business as usual." But while governments, public interest groups, and international organizations are searching for institutional innovation and adaptation in this area, global corporations, with few exceptions, have generally failed to develop an environment strategy.

This must change. The crystallization of moral suasion means that companies must pursue technological opportunities aggressively. Scarcely anyone, anywhere, defends unrestricted growth and development regardless of the consequences. The chemical industry's disposal of hazardous material is coming under scrutiny. Oil spills are in the spotlight. In construction, attention has focused particularly on hazardous materials and damaging landfill practices.

With the public demanding accountability and greater government intervention in the offing, how will each industry manage potential embarrassments? How can firms minimize, manage, or channel government intervention? And most pressing of all, how will they take advantage of the changing business environment?

First, global firms must be environmentally responsible over the long haul; this can't be viewed as a posture of convenience or as a way to maximize short-run profits. Since agreements like the Basel Convention and the Montreal Protocol are flexible instruments—with built-in mechanisms for adjustments as science provides more clues—there will be more, not fewer, constraints. Multinationals will be able to respond only if they have a responsible technology strategy.

The marketing challenge, once limited to identifying a product, now extends to explaining what a company will do about the environmental consequences of

its activities. Managing an inquisitive and possibly hostile public must be part of maintaining a positive image, but public relations without environmental action will surely backfire. So, too, positive action without realistic public relations may be a disadvantage.

Global corporations must further recognize how environmental concerns can help business. One case is Du Pont's accelerated R&D on replacements for CFCs, although this is an interim measure and won't buy goodwill for Du Pont for long. In the oil industry, Norske Hydro is making a strong claim for sound environmental management, and it also enjoys some of the goodwill accruing to Norway for its sensitivity to the environment. Goodwill is a solid business asset.

Firms might identify appropriate environmental niches as well. For example, World Envirotech, a U.S. subsidiary of the Kubotu Corp. of Japan, has found a niche in offering to dispose of refuse left after treating sewage. Adopting an aggressive approach to marketing waste-treatment technology in the United States, World Envirotech creates opportunities and reaps goodwill.

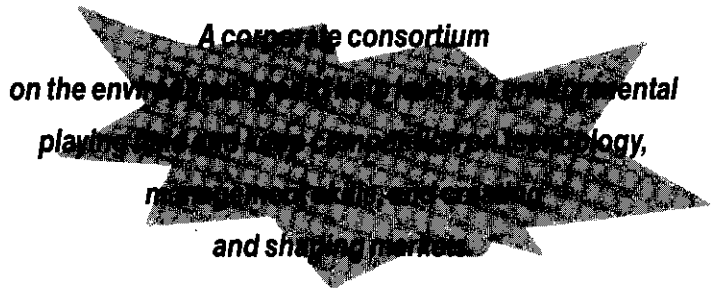
How rapidly a firm understands and addresses the changing norms and values regarding the environment will define in part its competitive edge. Companies must decide whether they will impede or preempt, prevent or participate in international efforts to develop effective global environmental strategies.

A Corporate Consortium for the Environment

It is obvious that environmental considerations affect almost all aspects of global enterprises. Retaining a competitive edge under the environmental gun will be a formidable challenge.

The "soft technologies" of management must be improved, updated, and tuned. Industry will continue to be on the defensive unless it buttresses environmental management and corporate organizational charts reflect environmental priorities. Risk assessments and contingent responses to hazards must be routine. Exxon's appointment of a senior staff member as corporate vice-president for environmental issues is a step in the right direction. However, cost-cutting in the petroleum and petrochemical industries has reduced managerial skills in the environmental area. Exxon has 10 fewer senior environmental experts than in the 1970s. Combined with a shift to contracting environmental cleanups to outside firms, this dilutes Exxon's managerial ability.

With large multinationals uniquely positioned for framing public policy, a good offense may be the best defense. Shaping public policy is good business—providing it is done with a modicum of ethics. Unless the multinationals discuss a strategy for influencing policy, they will be reduced to responding directly to outraged citizens. The legal implications are obvious



and the precedents for cross-jurisdictional litigation numerous. Developing networks for access to specialized services in environmental products and processes may reduce both the risk and the pain for all firms. New alliances may also force governments to make regulation rational.

Under these circumstances, the case for establishing a "corporate consortium on the environment" seems powerful. While no two companies are identical, none is unique. A consortium for exchanging information, streamlining the costs of responsible environmental action, and establishing a forum for policy deliberation would help corporations develop the best strategies.

The goal of a consortium would be to help level the environmental playing field and keep competition where it should be: on technology, management skills, and creating and shaping markets. In the case of environmental concerns, the shared predicaments outweigh by far the idiosyncratic risks. The rules of global investments are changing, and it is in the joint interest of global firms to make the new rules provide the best market. Because markets function efficiently and serve social objectives only given stable and well-understood norms, corporations must strive to help steer global deliberations toward clarity and consistency.

In essence, multinational corporations must enter into a partnership with nature. The world needs corporations to help arrest environmental deterioration; the corporations need to address environment factors to compete effectively. Preserving the planet's natural assets could become sound business practice as surely as it is already excellent public relations. ■