

# Transnational Corporations and Global Environmental Policy

*S. Noble Robinson, Ralph Earle III, and Ronald A. N. McLean*

Ten years ago, „environmental“ was not a very important word in the business lexicons of most transnational companies. Today, many of these companies have made superior environmental performance a worldwide priority. They express their commitment in written environmental policies and manage environmental performance not only to comply with local standards, but to achieve continuous improvement and keep pace with the inexorable rise in global environmental expectations.

Now, as trade barriers erode and markets expand in the Asia Pacific region, Eastern Europe, and Latin America, companies are looking at environmental policies in the context of the next wave of transnational business growth. They are considering how to safeguard against environmental liability in countries where regulations that are now embryonic will certainly develop. They are asking how guidelines for self-regulation such as the European Union’s Eco-Management and Audit Regulation, scheduled to enter into full force in April 1995, will affect threshold environmental expectations worldwide. In the wake of a side accord to the North American Free Trade Agreement that establishes a commission and procedure for resolving disputes about environmental matters, they are assessing the increasing influence that environmental issues have in international trade. Around the world, companies see new forces with the potential to continually upset assumptions and change the rules of environmental management, and they seek new methods for anticipating those changes.

We recently discussed global environmental policies with senior executives of transnational corporations in the chemical, petrochemical, pharmaceutical, consumer goods, and telecommunications industries. Their observations offer many valuable lessons about managing diverse business lines with diverse environmental implications in countries with very different environmental requirements and expectations. These conversations also reinforced our conviction that, in the future, companies will need more than policies that ensure consistency across operations and compliance with local standards. They will need flexible, pragmatic, long-term frameworks that help them to calibrate the strategic value of their environmental options and gain competitive advantage from changing environmental expectations.

In this article we first summarize major worldwide trends in environmental awareness and regulation and then discuss specific strategies and actions that leading transnational companies are pursuing.

## **Nothing But Change**

Many of the factors that transnational corporations must consider in global environmental planning are in flux – and are likely to remain in flux for decades.

**Requirements keep getting tougher.** In the United States more than two dozen major – and often pioneering – pieces of environmental legislation have been enacted since 1970, and Congress will be reauthorizing five of them in the near future.<sup>1</sup> Despite the worldwide recession, Western European countries that lead in environmental policy are also introducing and updating requirements, and their example continually influences nations with the resources and political will to act on environmental issues.

**Standards and expectations vary widely.** Roughly speaking, national environmental standards worldwide can be grouped into four tiers (see table), ranging from the environmental pacesetters of North America and northern Europe to partially industrialized countries such as Poland and China with fledgling environmental requirements and expectations. Transnational corporations agree that vastly different environmental requirements pose a significant challenge to managing an effective global environmental policy.

**Environmental issues are affecting trade.** Ever since Denmark won its case before the European Court of Justice in 1989 to restrict the importation of beverage containers that do not meet requirements in the Danish recycling program, industry has witnessed the advance of trade restraints based on environmental concerns. In 1993, free trade advocates in North America encountered the power of environmental issues to shape trade agreements, first with a federal judge’s ruling (later overturned) that would have required the Clinton Administration to prepare a detailed environmental impact statement for the North American Free Trade Agreement, and then with the adoption of a side agreement on environmental cooperation.

**Standards are becoming globalized.** Voluntary environmental management initiatives such as the International Chamber of Commerce’s Business Charter for Sustainable Development, drafted by transnational corporations and endorsed by more than 1,000 companies, including Arthur D. Little, Inc., are achieving wide acceptance.<sup>2</sup> As this process continues, the expectations they embody can shift rapidly from being advanced practices to being threshold requirements. Companies are now preparing for the impact of the EU’s Eco-Management and Audit Regulation and have been monitoring the development of environmental management standards, including Britain’s BS 7750, France’s X30-200, and the current effort by the International Organization for Standardization (ISO).

## Global Environmental Requirements and Expectations

Representative countries	Characteristics
<b>Tier 1</b>	
Denmark, Germany, Japan, Netherlands, Sweden, Switzerland, United States	Environmental pacesetters, with fully articulated regulatory systems, highest public expectations, most fully developed environmental infrastructures
<b>Tier 2</b>	
Australia, Canada, Finland, France, New Zealand, Singapore, United Kingdom	Rapidly changing, beginning to lend voices to global environmental stewardship issues
<b>Tier 3</b>	
Argentina, Costa Rica, Israel, Greece, Italy, Mexico, South Africa, South Korea, Spain, Taiwan	Still manage environmental issues weakly but are striving to do better
<b>Tier 4</b>	
Brazil, China, Colombia, Czech Republic, India, Indonesia, Panama, Peru, Poland, Russia, Thailand	Environmental requirements and expectations remain embryonic despite considerable industrial capabilities and environmental problems

*Source: Arthur D. Little, Inc.*

### **Environmental considerations affect lending.**

Enterprises, whether private or state-owned, can expect to conform to specific environmental requirements if they apply for funding from international private or government financial organizations such as the World Bank, the International Finance Corporation, and the European Bank. These organizations' environmental due-diligence requirements, intended to prevent lending to projects or investment in assets threatened by environmental liabilities, help reinforce the trend toward transnational environmental standards.

### **Environmental issues affect competitiveness.**

Companies are well aware of the potential impact of a Bhopal, a Seveso, or an Exxon Valdez spill on company reputations and finances. They also recognize the toll that is sometimes taken by the long-term costs of these accidents on a company's competitive strength. More recently, they have been exploring more positive areas, such as how the public's perception of environmentally benign attributes in products can improve market acceptance and competitive positions. Northern European consumers, for example, have shown a preference for packaging with a reduced environmental impact.

But as with other image perception issues, nothing is simple in environmental marketing. Environmental factors that motivate consumers in one country may fail to interest them in another. For example, PVC soft drink bottles cannot be used in Germany and Switzerland but are the preferred bottle in France, which has an extensive recycling network for them. Moreover, consumers may respond more to perceived environmental advantages

than to actual ones.

## **Global Environmental Policy Today**

With so many variables to consider, developing an approach to environmental policy, practice, and performance that works around the world and that will fit with long-range business planning is not easy. Many of the transnational companies we are familiar with emphasize a policy that ensures consistency across the organization in practice and planning.

SmithKline Beecham, for example, considers that a key factor in the development of its worldwide environmental policy has been the need to establish shared high standards in all aspects of the business and to integrate new acquisitions rapidly. Similarly, Cadbury Schweppes developed a global environmental policy to standardize an overall management system and ensure a consistent approach worldwide.

While agreeing on the need for consistency, not all companies necessarily seek to implement uniform standards and practices worldwide. Differences in local regulations affect how general policies are translated into specific programs. Monsanto notes, for example, that while the U.S. Toxic Release Inventory (TRI), a key driver for standards at its U.S. operations, does not yet have an equivalent in Europe or elsewhere, the EU and some of its member states have developed their own lists of reportable chemical releases containing chemicals not listed on the TRI.

These differences are rapidly diminishing. The companies we spoke with all anticipate that environmental standards will become normalized worldwide within the next 15 years. For this reason, among others, global environmental policies commonly ask that operations go beyond local environmental requirements. Northern Telecom, for example, strives for a policy that is uniform but flexible. While the minimum standard is that its facilities meet the requirements of host countries, the policy emphasizes achieving stricter corporate guidelines worldwide. Similarly, Monsanto requires that its operations worldwide „fully protect human health, safety, and the environment – while meeting or exceeding existing regulations.“ The company also pledges to „work toward the ultimate goal of ensuring zero effect attributable to waste in all media.“

Another significant reason for flexibility is the broad range of businesses a transnational corporation typically embraces. Both 3M and Northern Telecom note that the ease with which a facility meets a standard depends on the nature of its business. For Sara Lee/DE, part of the challenge is that different divisions must concentrate on different environmental matters. In the company’s Household and Personal Care Division, hazardous materials are a primary issue, but in its Coffee and Grocery Division, packaging is of more immediate concern.

Given these challenges, is a single global environmental policy realistic? The companies we spoke with say yes. Cadbury Schweppes believes the key is to ensure the right level of detail and to allow business units to develop policy responses that are relevant for their operations, products, and markets. 3M notes that the policy must be approved and supported at the highest corporate levels. Moreover, when environmental requirements present an individual business unit with an expensive project, such as a Superfund or asbestos cleanup, the corporation should help with funding.

Behind the policies of these transnational leaders, we find an internal compass for environmental issues – a strong, foresighted awareness within the company’s senior management of the implications of environmental trends. 3M, for example, decided to initiate its global environmental policy almost 20 years ago because the board of directors recognized then that the environment had arrived as an issue and that guidelines would help the company stay competitive. In the coming years, as requirements and expectations continue to mount, it will become increasingly clear that business advantages accrue to the companies that take the right steps to set their own environmental priorities and manage how worldwide environmental issues affect them.

## **Building an Effective Policy**

The lessons transnational corporations have learned so far from managing policies worldwide point to five key factors for successful global environmental management in the coming years.

### **Build the policy with support from all levels.**

Discussing the drafting of a global environmental policy, James Hagan, vice president/director, corporate environment and safety at SmithKline Beecham, comments: „Involve operations at all stages of producing a policy, in order to get buy-in.“ Virtually all the companies we contacted strongly agree. Northern Telecom’s Elizabeth Rose, assistant vice president, environmental affairs, says that transnational corporations need „to work with business units at all levels to develop an appropriate policy.“

Involvement from operations worldwide is especially important. If standards come from above, without enough input from operations, local staff may be frustrated at having to meet requirements that don’t exist for their local competitors, or that assume the presence of facilities – such as wastewater treatment plants and hazardous waste disposal areas – that have yet to be built in their country. AT&T’s James McClatchey, manager of corporate

international environmental, health, and safety, stresses that the best solution to geographic differences is to educate and train local managers to think critically about the environmental implications of their decisions.

**Develop a time horizon.** In environmental management decisions, as in other international investment decisions, timing is essential. Much as lenders attempt to match loan terms with asset lives, companies need to match environmental control decisions – including decisions about liability issues – with the expected life of an investment in a country. If a company is developing a production facility with an expected operational period of 30 years, decisions about facility and equipment design, pollution control systems, and site closure plans must go beyond the cost of effective compliance with current laws and company policy to maximize their value over the plant's useful life. Even in countries where strict environmental standards appear to be years away, managers need to look ahead, asking questions such as, „How would my operation plans change if I knew I would be subject to strict environmental liability laws?“

Transnational corporations today are moving toward long-range planning for environmental issues. Cadbury Schweppes currently seeks to understand environmental trends to ensure that the company is projecting necessary investment requirements in its long-range planning process. Sara Lee/DE anticipates future environmental pressures within the framework of long-range and operation planning efforts, seeking to build required environmental investments into its overall investment strategy.

### **Understand cultural and national differences.**

Companies may be planning their environmental policies on the basis of rising expectations around the globe. But for the foreseeable future, enforcement will happen locally. Penalties for environmental nonperformance – from fines to plant closings to lawsuits – will be levied by nations, not by supranational bodies.

Moreover, in developing countries where environmental expectations may be less advanced, transnational corporations are learning that their hosts may hold them to a higher standard than that imposed on local companies. To communicate effectively with local regulators, a company must understand what environmental issues mean from the regulators' point of view. In the former Soviet Union, for example, the urgency with which local officials press for top-notch environmental performance from foreign companies is driven in part by the environmental abuses of the Soviet industrial regime.

In shaping environmental policy, companies must also consider the different needs of local management operating under widely different environmental expectations, notes John Rugman, director of human resources for the U.K.-based transnational GKN. A policy that provides guidance and clarification to local management in a country with embryonic environmental requirements, for example, may seem superfluous in a highly regulated country such as Germany, where laws already embody many policy principles.

**Anticipate trigger events.** Environmental policy analysis often ignores the likelihood and impact of trigger events – front-page news like Bhopal – that turn existing environmental practices on their head. Trigger events radically change the dynamics of an issue not by turning public attention to an overlooked problem but by bringing widespread anxieties into focus.

A careful analysis of environmental issues can help identify which ones are ripe for dynamic change. Concerns about water-use issues – long important only to water-poor regions like California – are currently very widespread among experts. (*National Geographic* sent a special issue to its 11 million subscribers world wide on this subject in November 1993.) To date, no specific event has focused a critical mass of public and political attention on the issue. But companies that wait for this focus before addressing an issue like water-use policy are not taking advantage of readily available intelligence.

**Assess impact on competitiveness.** A transnational corporation's global environmental posture should always speak to the competitive dynamic of specific markets – through new products, proprietary pollution-control technology, alliances with environmental advocacy groups, or other means. Some companies now include this thinking in their policies. AT&T pledges to „include environmental considerations among the criteria by which projects, products, processes, and purchases are evaluated.“ Sara Lee/DE's policy states, „In addition to economic, financial, and social criteria, environmental demands will be integrated into the decision-making process.“

The experience of transnational corporations so far shows a strong awareness of the need to build the policy up from the business lines. In the coming years, that same attentiveness to the businesses will need to be carried forward into focused environmental strategic planning and decision-making.

### **A Strategic, Competitive Environmental Policy**

The analysis of environmental factors has long been reduced to a relatively simple review of compliance and cost concerns. For companies that seek international success, global environmental policies must address the fact that, with regard to the environment, the only constant is change, the only direction is improved performance,

and the only option is to integrate environmental considerations into the full spectrum of operating, investment, and policy decisions. Transnational corporations that do so will thrive, not only because they make sound long-term global investments, but because they will be poised to seize the advantage from their competitors when and where environmental pressures dictate market structures.

<sup>1</sup> *These laws cover river protection, groundwater protection, solid waste management, toxic waste cleanup, and endangered species protection.*

<sup>2</sup> *The 16 principles of the Business Charter for Sustainable Development are given in „Environmental Excellence: Meeting the Challenge,“ by J. Ladd Greeno, Prism, Third Quarter 1991. Recent news items underscore the effective use of intellectual property to protect and enhance an organization’s competitive position.*

*S. Noble Robinson is a vice president of Arthur D. Little and a director in the company’s Environmental, Health, and Safety Practice. The primary focus of his work is to assist clients with technical and management problems related to environmental, health, and safety matters. He leads the company’s work with clients in the southwestern United States and Latin America.*

*Ralph Earle III, a senior consultant in the Environmental Business and Strategy Unit at Arthur D. Little, specializes in helping companies derive competitive advantage through analysis of environmental issues. Mr. Earle is a former assistant secretary of environmental affairs for the Commonwealth of Massachusetts.*

*Ronald A. N. McLean is a director of Environmental, Health, and Safety Consulting at Arthur D. Little. Based in the company’s Brussels office, he is responsible for its environmental management and auditing activities in Europe. He assists transnational corporations in assessing environmental issues and developing environmental management programs suited to a wide range of countries and cultures.*

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