Corporate Strategy and International Environmental Policy

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This paper analyzes the interactions between international environmental policy and multinational corporate strategy. The main contribution is building a new conceptual framework to analyze the type of corporate strategy developed in the presence of both national and international environmental regulations. This framework distinguishes between firm-level compliance with environmental obligations and the development of resource-based green capabilities. It also classifies major environmental regulations and incorporates a discussion of public policy.

INTRODUCTION

The analysis of environmental policy in the context of corporate strategy requires the use of ideas from fields as diverse as economics (especially trade theory), strategic management, law, politics and environmental studies. A new conceptual framework is proposed in which the emphasis is upon firm-level strategic decision-making rather than government policy making. The manager is the focus of attention. Today most firms engaged in international business not only need to be aware of environ-

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mental issues but, must also have in place a strategy to deal with environmental regulations. This requires that managers understand the political and legal process by which environmental regulations are drawn up and implemented, as well as the frequent interactive lobbying process between business, governments, bureaucracies, and environmental non-governmental organizations (ENGOs).

Firms based in large home markets like the United States and the European Union (EU) should pay great attention to domestic environmental regulations. In contrast, firms from smaller countries like Canada (which is one-tenth the size of the United States), most Asian countries and all Latin American countries should focus primarily upon the environmental regulations of their major customers (usually the "triad" economies of the United States, the EU and Japan). In this paper, we develop a new conceptual framework which addresses this asymmetry by examining the interactions between government and the firm.

In Section 2 of the paper we examine the relationship between environmental regulations and firms' responsiveness to them. Here, we provide a managerial perspective on compliance to international environmental policies. A firm-level perspective is critical here, as it will be instrumental to the firm's strategic orientation in the environmental management area (see Section 3). We are particularly interested in the environmental side agreement of the North American Free Trade Agreement (NAFTA) linking Canada, Mexico and the United States. NAFTA is a major breakthrough since it is the first international trade agreement (other than internal EU regulations) to explicitly incorporate environmental issues, and to establish a bureaucracy to administer trade and environment interaction, primarily through the NAFTA Commission on Environmental Cooperation (CEC). NAFTA and the CEC can be seen as benchmarks for analysis of other international environmental organizations and agreements.

In Section 3 of the paper, we develop a corporate strategy framework with which managers can determine the appropriate choice of strategy in response to both international and national environmental pressures. They can comply with new environmental regulations, but also develop green capabilities which may allow them to outperform competitors on environmental strategy grounds alone. Green strategies may focus on responding strongly to national regulations, international regulations or both simultaneously. In Section 4 we discuss the argument that firms can seek to avoid domestic environmental regulations by moving offshore; the Mexico pollution-haven case.

As a special case of the corporate strategy framework, we discuss in Section 5 the environmental argument of Michael Porter (1990) as refined by Porter and van der Linde (1995). Porter argues that tight domestic environmental regulations may force firms to develop a green strategy. In time, these firms will be able to use their new environmentally based skills to take products and services to new foreign markets, in which they will enjoy a competitive advantage over other firms which were not forced to become green. We find that Porter's argument may be correct for triad-based firms, but not for firms from smaller countries. The latter firms rely on market access to triad economies, and they need to respond to host country environmental regulations rather than home country ones.