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Sustainable Development: Theory & Policy

Week 7

**Firms & Markets - Corporate Perspectives on
Sustainability**

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1. The Firm & the MNC's
2. Lateral Pressure Theory of Corporate Behavior
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7.1 The Firm & The MNC's

Theory of the Firm and Theory of the State show different ways in which collective action can be achieved



Foundations

“The foundation of the theory of the firm is the **production function.**”

The elegance of the production function lies in the parsimony in representing economic relationships



Critical Imperatives for Institutional Response

- environment **and** development which complicates international responses (we are going to do everything we did in the parts on development, but better and more)
- search for norms: which makes the "new principles" issue more politically compelling
- emerging institutional directives: follow-up on Rio

7.2 Lateral Pressure Theory of Corporate Behavior

Basic Theory &
Applications to MNC's



Corporate theory highlights an underlying logic of lateral pressure:

“The propensity of firms from one country to engage in direct outward investment—placing production outside its own national jurisdictions—will vary according to the level of development and technological capabilities of that country “

The state provides "rules of the game"; and the state is a central actor, both directly and indirectly



Decisions & Environment

- Organizational fields, defined as the **policy spaces** within which decisions are made about the actions of firms, are in practice determined by characteristic features of product lines, industry, and the sizes of firm.
- The issue of trade and environment, more particularly the possible conflicts **between the commitments** of countries under trade agreements and their commitments or objectives on **environmental protection**, has virtually exploded into policy-makers' awareness in late 1991.

7.3 Strategic Responses

New Policy Principles
& International
Institutional Responses



New Policy Principles - Examples

- Informed Prior Consent (Basel Convention on Hazardous Wastes.)
- best practice: a commitment to use best-known technologies and processes
- polluter pays principle (PPP): recognition that polluters should pay the full cost of environmental damage caused by production of service
- User Pays Principle (UPP) roughly similar



Examples Continued ...

- full cost pricing: production cost plus the cost of related damages to the environment
- eco-efficiency: economic efficiency alone is not sufficient; practice of efficiency on environmental grounds must be developed
- eco-labelling: norms and procedures on communication with consumers
- compliance and reporting: urging businesses to measure their performance on environment



International Institutional Responses - examples

- Agenda 21
- UN Framework Convention for Climate Change Convention
- Global Environment Facility - empowering LDCs for project development
- UN Commission on Sustainable Development
- New Department in the United Nations
- Reporting Mechanisms to the General Assembly
- Donor Demand for Accountability
- Institutional Pressures for Performance
- Millennium Development Goals