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Ecological Components of Corporate Social Responsibility: Theoretical Background and Practical Implementation

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Abstract:

The paper provides the in-deep analysis of the theoretical background of the necessity and efficiency of the ecological component of corporate social responsibility. The distinguish features of four approaches of corporate social responsibility are identified in order to build a comprehensive view of the evolution of the understanding the vital role of the nature in the context of reaching the long-run goals of business and humanity in general. Additionally, sustainability policies of the most ecologically responsible companies were studied to monitor the specifics of their formulation and the ways to prevent the environmental degradation and climate change. Moreover, the implemented eco-oriented activities by companies were analysed to classify the common activities and to evaluate the level of their involvement. The results indicated the gap between the well-developed theoretical background and the poor participation of business in solving and prevention ecological issues.

Keywords: climate change; corporate social responsibility; ecological responsibility of business; environmentally friendly technologies; greenhouse gas emission; renewable sources of energy.

JEL Classification: Q56; M14.

Introduction

The recent data presented by Global Footprint Network (Global Footprint Network. *Ecological Footprint Explorer*. 2020) indicates that all European Union countries and the United States of America face the biocapacity deficit, which means that the ecological footprint of the production and consumption exceeds the biocapacity. Under these circumstances, the issue on the minimizing negative impact of human activities and functioning of businesses stays vital for each country and at the global level as well. Thus, public policy framework is changing according to the Sustainable Development Goals, presented by the United Nations Organization (United Nations. *Sustainable Development Goals*. 2015), which highlights the necessity of solving the ecological issues as seven out of seventeen goals are aiming at shifting to waste-free energy, providing clean water, designing sustainable cities, responsible consumption and production, preventing climate change, protecting life on land and below water. At the same time, the European Commission introduced the 2030 climate and energy framework, that targeting at reducing the emission of greenhouse gas, increasing the share of renewable sources of energy and rising the efficiency of energy use (De Paoli and Geoffron 1962). In this context, it should be mentioned that to maximize the promotion of declared goals all market actors should be involved, namely: the government by reforming the legal system, business by employing the principles of ecological responsibility and consumers by changing their preferences from cheaper goods towards eco-goods produced by less harmful technologies with minimum wastes etc.

1. Literature Review

The first, who enlightened the issue on the ecological degradation was R. Carson in her book "Silent spring" (1962), where she stated that "to a large extent, the physical form and the habits of the earth's vegetation and its animal life have been molded by the environment. [...] Only within the moment of time represented by the present century has one species – man – acquired significant power to alter the nature of his world" (Carson 1962, 12). R. Carson mentioned that with greedy intervention of human beings the nature is misbalanced, and it will take generations to balance it again, if no additional interference happened. The human modification of the nature started with the use of chemicals in order to increase the productivity of agriculture and till now almost all human's activities affect the state of the nature in the negative way through pollution, emission of gas, waste disposal, depletion of natural resources, exhaustion the soil, destroying the wild life etc.

The question on the role of business in environment protection became vital in the second half of the 20th century. The necessity has arisen as the majority of produced goods are consumed by the population of developed countries, while leaving too few goods to satisfy the needs of the rest of the world. Thus, to be able to meet the minimum needs of all the population the economic activities should be increased considerably, which in turn would require more energy and resources, that lead to resource depletion, pollution and environmental degradation in general. Consequently, there is a dilemma how to meet the basic needs of growing population without depletion of natural resources and environmental degradation.

One of the ways how this dilemma can be solved is to implement business ethics towards the basic motives of their economic activities in the form of corporate social responsibility (CSR), which shapes the economic behaviour of business under conditions of the market-driven economy. However, as the main goal of business is to maximize its profit by supplying the goods that are demanded, in the free market economy without any legal restrictions business profit maximizing behaviour would lead directly to the environmental degradation and lack of basic goods for the poor, that is ecologically and socially inefficient.

In this context, the classical approach of CSR should be studied, according to which, the only one social responsibility of business is to maximize the profit by efficient use of available resources, while acting in accordance with the current rules of the game (legal framework) (Friedman 1962, 133). The classical model of CSR excludes the environmental responsibility of business, while business can affect the environment in the way that is valuable for consumers, thus, the wiliness to satisfy the demand of eco-oriented consumers can lead to the shift in the production patterns and rethinking the environmental footprint of the economic activities in general.

At the same time, the classical model of CSR has some negative outcomes. First of all, while businesses try to maximize their profit, they have to increase the output, that can be archived by increasing the use of energy and other natural resources, which would lead to depletion of available factors of production in the long run, enlarged volume of pollution and other environmental losses as: destroying wilderness, lower rate of survival of endangered species, ruining of historical landscapes that are unvalued at the market economy (Des Jardins 1998). The second issue arises when the short-run goals of business are not matching with the long-run goals of the industry. Thus, to reach their short-run goals businesses can increase the production by using more natural resources, but without any external regulation in the form of legal norms and laws it would cause the lack of resources for the industry in the long-run and leaving the consumers without demanded goods in future. The third issue is related to the wiliness to satisfy the preferences of consumers, which sometimes can be irrational, unethical and silly, thus this type of business behaviour can be seen as a misuse of limited resources on satisfying unethical preferences of people. Additionally, it should be mentioned that the classical model of CSR motivates the growth through maximally satisfying preferences of consumers, while not taking into account the development as a movement from eco-harmful technologies and products towards eco-friendly technologies, alternative sources of energy, recycling etc.

On the contrary, the neo-classical approach of CSR shapes the behaviour of businesses seeking the profit while obeying the "moral minimum", which means "avoiding harm" (Bowie 1991). Additionally, the moral minimum can be considered as the obligation of business to act in favour of the interests of its stakeholders, respect and protect the rights of their employees and consumers (Donaldson 1989), protection of health and safety, assuring basic freedom (Bowie 1991; Carroll 1979). The fundamental reason of introducing the moral minimum is to identify the things that cannot be trade-off with potential profit. Thus, businesses cannot sacrifice the human rights, safety and social wellbeing in order to increase the level of satisfying consumers' needs. Obviously, the neo-classical model of CSR has advantages over the classical model as it introduces the moral minimum and builds it into the common business practice.

Additionally, it should be mentioned that N. Bowie (1991) argued that environmental responsibilities are not included in the moral minimum. Thus, environmentally responsible activities can be motivated by the needs, preferences and demand of consumers. At the same time, J. Des Jardins (1998) suggested that key environmental considerations should be added to the moral minimum to serve as a constrain for businesses and consumers. He

stated that without a healthy ecosystem human wellbeing is threatened, furthermore, the environmental sustainability should be added to the core principles of CSR. Accordingly, businesses are free to maximize their profit having the obligation to leave the environment no worse off at the end. So, as the classical model of CSR placed legal constraints, the neo-classical model added moral constraints, the sustainable development model seeks to declare natural constraints, that are grounded on the ecological laws. As the ecosphere is the vital source of factors of production, businesses that use resources at unsustainable rates or produce waste that cannot be absorbed by the system will face the shortage of resources in future, meaning that their future efficiency depends on the current way of production. It should be clarified, that following the principles of sustainable development contrasts with the economic growth, where growth stands for an increase in output by employing more resources and development means a rise in production that is achieved by shifting to more efficient technology without an increase in inputs used (Daly 1993). Thus, environmental responsibility of business includes these principles: to use the renewable resources at the rate that is lower than the ability of the system to replenish itself; non-renewable resources should be employed only at the rate at which the alternative use of resources is developed (the wastes of production can be used as inputs in another production) and future loss of resources is compensated; wastes and emission production should not exceed the potential capacity of the system to assimilate them (Des Jardins 1998; Schmidheiny 1992; Timberlake, Holmberg and Bass 1991). Moreover, it should be mentioned that in the context of protecting the environment, businesses have to switch towards “demanufacturing” and “remanufacturing”, that mean recycling the materials in their production, saving the raw materials and energy on their converting; “circular economy”, when the waste of one production process can be employed as an input for another production (Schmidheiny 1992; Timberlake, Holmberg and Bass 1991).

The next stage of CSR development is the formation of the “corporate citizen” concept, which includes business activities towards social, environmental and economic issues and shareholders’ concerns. Under these conditions’ businesses seeking the most efficient process of production, that can minimize the negative impact on the environment, promote social wellbeing and ensure enlarged long-run financial performance (Epstein 2008). In this context should be mentioned that businesses that aim at their short-run profit are more likely to resist the increased costs of environmental responsibility and consider this type of engagement as a threat to their business. In contrast, long-term oriented businesses see these additional costs as a new opportunity and a comparative advantage over their competitors (Heikkurinen 2010).

2. Methodology

As the aim of the study is to build the bridge between the theoretical understanding of the necessity of the ecological component of corporate social responsibility and the approaches of its implementation by businesses, the next step is to examine the level of employment of environmental responsibility by businesses. For this purpose, the content analysis was implemented based on the CSR and sustainability reports of the most eco-oriented companies. The most ecological responsible companies were chosen in accordance to the report of “Corporate Responsibility Magazine” (2019), which publishes on annual basis the 100 best corporate citizens considering the success of business in seven key areas: environment, climate change, human rights, employee relations, stakeholders and society, governance and finance, where two indicators are presented to account for ecological responsibility: climate change and environment. In-deep analysis was done on officially published CSR and sustainability policies and the key eco-oriented actions conducted by the businesses.

3. Results

According to the table 1, the analysis of proposed policies of the 10 “most eco-oriented companies” (based on their scores) indicates: 9 out of 10 companies reported on their people-, society-, community- oriented performance; 7 out of 10 included environmental concerns among the key, while only 2 companies specified the possible way of reducing the negative impact on the ecosystem through the employment of environmentally friendly technologies, assessment and reduction of emission and waste; 6 out of 10 businesses mentioned their economic and/or finance goals in their CSR policies; 3 out of 10 companies introduced philanthropy and volunteering as a part of their CSR policy. It should be mentioned that despite their high scores in environmental responsibility and climate change prevention, these companies do not demonstrate the superlative perception of ecological issues.

The outcomes of the content analysis of CSR and sustainability official reports of the 10 most environmentally responsible companies (Table 2) show the medium level of their participation in solving ecological problems. Thus, only half of the studied companies reported on their involvement in majority of identified common eco-oriented activities of business, their participation is varying between 8, 7 and 6 cases out of 12 possible, while the rest show the minimum level of business contribution to fighting the climate change and environmental degradation.

Table 1. Corporate social responsibility and sustainability policies.

Company	CSR, sustainability policy
Nielsen Holdings Climate change score = 308	Through responsible, sustainable business practices and our commitment to giving back, we care for the <i>communities and markets</i> where we live and operate our business. Our strategy includes all <i>environmental, social and governance</i> issues that affect our business, operations, and all internal and external stakeholders.
Freeport-McMoRan Climate change score = 305	At the core of our business are the extraordinary people who focus on <i>safe production</i> while helping to improve the sustainability of areas near our operations. This means we operate a business that upholds and respects <i>human rights</i> while working with our <i>stakeholders</i> on the fundamental <i>environmental, social and economic</i> aspects of our sustainability programs.
Visa Climate change score = 296	Helping improve <i>lives and economies</i> around the world. From advancing financial inclusion to helping in times of crisis, we're using our products, <i>know-how and philanthropy</i> to bring about positive change.
Weyerhaeuser Climate change score = 258	We focus on <i>environmental</i> stewardship because it's the right thing to do, and because our long-term success depends on a healthy, sustainable supply. We also depend on strong, relationships with our <i>communities</i> because without their support, we can't operate. And perhaps most of all, we depend on a constant flow of diverse and talented <i>people</i> who are excited to join our team and build a long-term career at our company.
Clorox Environmental score=486	Our long-term strategic plan that guides our business includes <i>financial goals</i> as well as corporate responsibility goals, addressing <i>environmental</i> sustainability in our operations and products, <i>diversity and inclusion, workplace safety, responsible sourcing and philanthropy</i> , among other key areas of our business.
Allstate Environmental score=366	The magnitude of our global purchasing activity means our procurement practices have far-ranging effects because we can positively influence the businesses from which we source products and services. By understanding how suppliers manage <i>emissions, waste, regulatory compliance and cybersecurity</i> , we can better articulate our expectations. By actively managing these risks, we enhance our reputation and align procurement decisions with <i>environmental and social</i> responsibility, which increases the confidence of <i>stakeholders</i> who depend on our performance.
Coca-Cola Environmental score=365	Our planet matters. We act in ways to create a more sustainable and better shared future. To make a difference in <i>people's lives, communities and our planet</i> by doing business the right way.
Welltower Environmental score=317	We believe that our sustainability initiatives parallel our commitment to helping people live well and age well. There's a critical interdependence between <i>our health</i> and the health of our <i>planet</i> . As a result, we are deeply committed to incorporating <i>environmentally</i> friendly technologies and approaches in our real estate portfolio.
Manpower Group Environmental score=281	We believe meaningful, sustainable employment has the power to change the world.
Whirlpool Environmental score=268	At the very core of our Culture of Responsibility is the recognition that our company and <i>volunteer</i> efforts should be in constant pursuit, even if in a small way, to help improve the <i>lives of others</i> so they may fully pursue their own dreams and passions.

Source: designed by the authors

Moreover, in this context should be mentioned the existence of a huge gap between expected environmental responsibility of business by scientists, consumers and other stakeholders and its real realization. Additionally, we should consider the difference in the goals of large and small and medium sized companies, while small and medium sized businesses aim to operate within the domestic market, the large companies are involved in the international trade and are willing to invest in environment protection projects or face the enlarged costs that caused by their shift to eco-friendly technologies etc., in order to attract eco-demanding consumers and increase the global competitiveness (Vives 2006).

At the same time, some scientists define the environmental responsibility as eliminating the negative affect of the operational activities of a particular company, while this negative impact varies between industries, as companies of the service sector have relatively lower impact comparing to the source-intensive industries. The approach of personal responsibility of each company cannot solve the global ecological problems as paying taxes for pollution will definitely increase the consumer price (Molocchi, Recchini and Tudini 2019), besides that, the methods of assessing the negative affect are incomplete, which can encourage companies to provide misinformation to avoid enlarged costs. One of the ways to change the existing situation is to increase the awareness of consumers and non-government organizations on limited attempts of business to cope with ecological issues and stimulate the need of

consumers as the main actors at the market to request the eco-oriented actions of business regardless their direct negative impact, thus, the costs of the less harmful technologies, costs of preservation the ecosystem, costs of installing the facilities for renewable sources of energy and recycling would be divided between all the companies, that would lead to the minimum increase in the consumer prices and the eco-oriented innovation process would flow more smoothly and less financially tense for businesses and consumers. Moreover, it should be mentioned that according to M. Porter and C. van der Linde (1995), strict environmental restrictions can increase the competitiveness of the business at the global scale and stimulate the overall modernization and innovation, shifting towards more efficient use of available natural resources.

Table 2. The most common environmental activities of business, 2018-2019

Environmental activities	Weyerhaeuser	Clorox	Coca-Cola	Freeport-McMoRan	Visa	Nielsen	Whirlpool	Manpower Group	Welltower	Allstate	Total cases
Shift to renewable sources of energy, reduction in energy consumption	+	+	+	+	+		+	+	+	+	9
Reduction of the greenhouse gas emission	+	+	+	+	+	+	+	+	+		9
Waste reduction, recycling	+	+	+	+	+	+	+	+			8
Reduction of water use		+	+	+	+	+	+	+	+		8
Eco certification	+			+	+			+	+		5
Education on environmental issues		+	+	+	+	+					5
Protecting ecosystem	+	+	+	+							4
Eco-oriented volunteering/charity			+		+	+	+				4
Sustainable resources in production		+	+			+					3
Tree planting	+	+									2
Access to recreation for communities	+										1
Reduction of chemicals in production	+										1
Total cases	8	8	8	7	7	6	5	5	4	1	

Note: * - investments in alternative energy

Source: designed by the authors

At the same time, as businesses in their majority are profit oriented and as the principles of CSR are voluntary, to maximize the positive affect of CSR the appropriate encouraging public policy should be introduces, which can ensure the equal participation of all market players in solving the common environmental issues. Despite the existence of consumers that are demanding for the ecologically produced goods and are willing to cover the additional costs, their demand is limited and cannot overtake the demand for relatively cheaper substitutes, which discourage the producers of mass products to shift to eco-friendly technologies. The appropriate public policy should provide some advantages for businesses that do more than required by the law and ensure that all companies at least follow the minimum requirements. Businesses that do not have or have minimum negative ecological impact should participate through charity and other volunteer activities directly or encourage their employees to participate.

It should be mentioned that as long as principles of CSR and environmental standards are voluntary and there is lack of openness of the information on the actual ecological activities, “unfair” companies will be using the false information to “advertise” the company and improve their competitiveness without real attempts to change the current situation (Bazylevych, Grazhevskaya, Mostepaniuk and Virchenko 2019).

Conclusion

The conducted analysis shows that despite the well-developed theoretical background on the necessity and efficiency of ecological responsibility of business, the current eco-oriented activities of businesses are poor and aiming at demonstrating their participation rather than actual influence the state of the nature, prevention the degradation and climate change.

To stimulate the ecological concern of business the following recommendations are given:

- Consumers as a key drivers of the market should shift their preferences towards goods that are produced by eco-friendly technologies, made from recycled materials, goods that can be recycled by consumers and companies that donate a share of their profit on environment protection projects etc.,

- The legal ecological framework should be developed, because as long as the ecological responsibility principles are voluntary unfair companies can abuse the principles and try to improve their competitiveness and consumer loyalty by providing misinformation and only declare their eco-oriented actions without real involvement;
- Consumers and non-government organizations should demand the openness and availability of the information on ecological projects completed by businesses in order to make their choices accordantly and prevent the spread of misinformation;
- The understanding and awareness on the importance of the nature as a main source of all factors of production should be broadened underlining the key role of a consolidated actions made by businesses and consumers in solving ecological issues.

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