

EconWorld2025@Prague

Scope of the Environmental Corporate Social Responsibility of Firms

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ABSTRACT

This paper analyzes whether firms specialize in specific dimensions of environmental corporate social responsibility (ECSR). We assume that their ECSR covers their investment in emission reductions and analyze whether it should also be considered in production decisions. The results depend on the extent of their ECSR concern and on the existence of strategic interaction between governments. In the case of a single country and therefore no strategic interaction, firms in equilibrium do not consider ECSR in their production decisions, meaning that the ECSR is narrow. However, the above result may change when strategic interaction exists between governments. In the latter case, when the ECSR concern is low, firms also consider ECSR when making production decisions and the ECSR is therefore broad, but firms choose a narrow ECSR when the concern is high. Thus, the existence of strategic behavior between governments increases the extent of awareness resulting in firms opting for a broad ECSR compared to the case of a single country. Moreover, in a single-country and two-country scenario, joint social welfare is maximized when firms adopt a narrow ECSR. Therefore, international scenarios require a stronger commitment to ECSR in order to align the interests of governments and firms.

KEYWORDS Environmental corporate social responsibility; environmental tax; imperfect competition

JEL D43, L13, L22, Q56