



Munich Personal RePEc Archive

## **Methodology Features of green business development**

Shumska, Svitlana and Stepanenko-Lypovyk, Bohdana

Institute for Economics and Forecasting, Ukrainian National Academy of Sciences

April 2012

Online at <https://mpra.ub.uni-muenchen.de/41616/>

MPRA Paper No. 41616, posted 01 Oct 2012 13:25 UTC

## METHODOLOGY FEATURES OF GREEN BUSINESS DEVELOPMENT

*Svitlana SHUMSKA*

PhD in Economics

*s\_shumska@mail.ru*

*Bohdana STEPANENKO-LYPOVYK*

*BohStep@gmail.com*

*Institute for Economics and Forecasting, Ukrainian National Academy of Sciences,  
Room# 812, 26, Panasa Myrnoho St., Kyiv, 01001, Ukraine*

*A transition from the extensive type of economic development to sustainable should provide the minimization of the non-renewable natural resources use and effective use of renewable ones, improvement of environmental quality and increase of the state's ecological security and lead to stable economy growth. Such transition supposes to form new kinds of economic activity that make profit and have positive influence on environment. One of such activity is 'green business'. The article defining this notion and describes theoretical and methodological principles of functioning of this type of activity. Also the basic aspects and main development stages of green business are marked out and the classification of green business enterprise is shown.*

*Keywords: green business, sustainable development, environmental goods and services.*

### **Introduction**

The issue of global climate changes and environment protection are becoming more and more actual in present conditions of world economy development. The majority of the developed economies have chosen the decrease of harmful influence on the environment as one of the directions of the economic and social development in the XXI<sup>th</sup> century. And as the industrial activity is today's main source of environment pollution, the main attention is given to the issue of introduction of technologies and business-processes, that are able to reduce negative influence of this activity on the environment. Usually, enterprises' expenditures related to the use of natural resources are much lower, than arisen elimination costs of negative influence of its activity on the environment. Such influence creates the unfavorable environmental living conditions, negatively influences on the health of people, animals and plants. Pollution of environment leads to the decline of birth-rate, immunity weakening, extinction or genetic changes of flora and fauna that leads to additional public expenditures on purchasing medicines, health improvement, protection of plants and animals. As the maintaining of environmental quality is one of the direct function of the state, so additional expenses that incurred from man and enterprises

activity are carried by the state to create the favorable living conditions: liquidate the aftermaths of ecological catastrophes, protect the natural environment, control the use of natural resources, minimize the harmful influence of industrial accidents at enterprises, improve drinking-water quality, promote green technologies in economic activity etc. Thus, environmental pollution stipulates the increase of both public and state expenses as well as decline of the investment attractiveness of some regions and countries, which also leads to decrease of demand on ecologically harmful goods, increase of tax burden in industries with the high level of environmental pollution, etc.

### **1. Defining the term "green business"**

Contradictions between economy and ecology are originating from inharmonious development of the system „nature-human-production”. Since the beginning of the industrialization till now the gradual growth of the scales of harmful industrial wastes into environment and the number of environmental catastrophes takes place, that creates the necessity of research of the new development, technologies and processes approaches that create profit and at the same time help to improve the ecological situation.

The result of such researches is the formation and development of new type of economic activity – “green business” – which has to solve the problem of harmonization of relations in a chain „nature–human being–production”. Contrary to the traditional business concepts, green business is based on the ecologically favorable production methods. That’s why we think that the definition of term “green business” should reflect its economic efficiency and specify its differences from existing business-models. Also green business presupposes not only regulation of final goods ecological purity and decrease of harmful impact of the production on the environment and people’s health, but also formation of certain consciousness for company’s workers and managers in relation to importance of environment protection and decline of harmful impact on environment. Coming from it, we propose the following definition of the term „green business”: Green business is a type of activity, the primary purpose of which is profit earnings from the sale of environmental goods and services, the production and rendering of which presupposes the usage of methods and technologies that minimize integral eco-destructive impact on the environment, and their usage assists the creation of maximally possible ecologically favorable living conditions for consumers in a short-term and long-term periods and leads to formation of ecological consciousness in society. Green business can be realized in any sphere of economic activity.

## 2. Aspects and stages of green business development

Green business presupposes the existence of three aspects which characterize it from different sides. These aspects are the following: *ecological*, when environmental potential remains unchanged. It means that the used environmental resources have not to be either reduced or collapsed in the process of human activity. Thus, the usage of renewing natural resources must not exceed the rates of their renewal and the usage of not renewing natural resources have to be minimized; *social-cultural*, that, at first, means satisfaction of individual needs of human beings (health, nutrition, dwelling, education, culture, etc.) by ecological way, i.e. by reducing harmful influence on the environment and installing of green technologies; secondly, creation of new society, which would unite achievement of common purpose: environmental protection, improvement of ecological living conditions, etc.; *economical*, that appears when sustainable development is financially reasonable and presupposes gaining of financial benefit from

setting up environmental protection/improvement programs and mechanisms.

Development of any new type of economic activity takes place in a few stages. Green business also has a few stages of development, that are the following (see Fig. 2):

**STAGE I.** Putting into business practice of ecological/sustainable standards or positioning on the market as «eco-company».

**STAGE II.** Producing of environmental goods and services.

**STAGE III.** Green business.

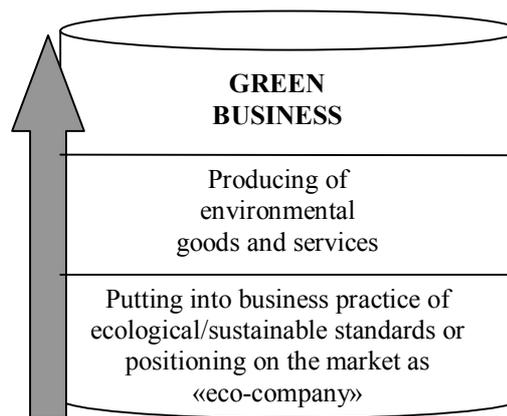


Fig. 1 Evolutional stages of green business development [developed by the Author]

On the first stage the changes, which are related to the administrative regulation of enterprise activity by government, take place and that, usually, presupposes the observance of certain ecological management standards. Thus, on this stage an enterprise assists to decline the level of environmental pollution, but not due to its own will, but in accordance with requirements of legislative and normative acts or decisions of world organizations. On the second stage an enterprise, due to its own free will, launches green production technologies and assists to the environmental improvement by the usage of raw material and technologies minimizing harmful impact on the environment and improving living conditions. On the third stage, except the minimization of harmful ecological external production effects, ecological consciousness of top-managers and employees is formed, which is based on providing ecological needs not only of our generation but also foresees creation of favorable living conditions for future generations by minimization of negative production impact on the environment in a long-term period. In the Table 2 a comparative description of the stages of development of green business is given. From the table it is evident that activity of green business is related not only to production of environmental

goods and services, but also a production process should be built in sustainable way. All factors of production should assist the environment protection, and the usage of produced products and services should improve the ecological living conditions. Thus, we can say that green business presupposes the formation of ecological consciousness for consumers and so distinguishes it from other similar types of activity. Market inability to protect the environment and natural resources makes the state to take measures for

improvement of ecological living conditions as it is one of its functions. Governments should use a lot of instruments for building up conditions of market formation and functioning that provide environment protection. So, the growth of the governmental expenditures on environment protection is taking place, because in many cases state intervention is needed for providing sustainable development, as well as green business, into life [1].

**Table 2. Comparative description of green business and other similar types of activity**

Business processes	Elements of business-process	Green business	Producing of environmental goods and services	Putting into business practice of ecological/sustainable standards or positioning on the market as «eco-company»
Establishment	Business objective	Profit earnings	Profit earnings	Profit earnings
	Business task	<ul style="list-style-type: none"> <li>- selling of products or rendering services, which assist the protection of nature and environment;</li> <li>- creation of ecologically suitable living conditions in short- and long-term periods.</li> </ul>	<ul style="list-style-type: none"> <li>- selling of products or rendering services, which assist to protection nature, environment and health.</li> </ul>	<ul style="list-style-type: none"> <li>- selling of products or rendering services, which are economically beneficial for an enterprise.</li> </ul>
Production	Raw materials and resources	<ul style="list-style-type: none"> <li>- correspond to world quality standards as well as ecological standards;</li> <li>- create minimal level of ecologically harmful emissions during the production process;</li> <li>- after usage utilization isn't harmful for the environment;</li> <li>- have renewal character;</li> <li>- chemical impact was minimized in the process of development.</li> </ul>	<ul style="list-style-type: none"> <li>- correspond to world quality standards as well as ecological standards;</li> <li>- chemical impact was minimized in the process of development.</li> </ul>	<ul style="list-style-type: none"> <li>- correspond to world quality standards.</li> </ul>
	Technologies & equipment	<ul style="list-style-type: none"> <li>- usage of clean technologies, which have minimally possible harmful impact on the environment;</li> <li>- after use utilization isn't harmful for the environment.</li> </ul>	<ul style="list-style-type: none"> <li>- usage of equipment that is suitable for goods and services production.</li> </ul>	<ul style="list-style-type: none"> <li>- use of equipment that is suitable for goods and services production.</li> </ul>
	Production Process	<ul style="list-style-type: none"> <li>- corresponds to the ISO 14000 Quality Standards;</li> <li>- has minimally possible negative impact on the environment;</li> <li>- final products are ecologically pure, are not harmful for the health of mankind and have minimal negative impact on the environment;</li> <li>- use of packing materials that can be recycled or utilized with minimal negative impact on the environment.</li> </ul>	<ul style="list-style-type: none"> <li>- final products are ecologically pure, are not harmful for the health of mankind and have minimal negative impact on the environment.</li> </ul>	<ul style="list-style-type: none"> <li>- reduction of transaction costs due to effective use of electric energy and natural resources.</li> </ul>
Delivery	Marketing	<ul style="list-style-type: none"> <li>- positioning of goods and services as ecologically pure;</li> <li>- labeling of goods and services with special tags, which allow consumer to distinguish ecologically pure types of goods and services from standard ones;</li> <li>- positioning of an enterprise as ecologically consciousness, i.e. workers and managers of which assist to improve the ecological situation not only at work but as well in everyday life.</li> </ul>	<ul style="list-style-type: none"> <li>- positioning of goods and services as ecologically pure;</li> <li>- labeling of goods and services with special tags, which allow consumer to distinguish ecologically pure types of goods and services from standard ones.</li> </ul>	<ul style="list-style-type: none"> <li>- positioning of goods and services as ecologically pure;</li> <li>- labeling of goods and services with special tags.</li> </ul>
Consumption	Consumer needs	<ul style="list-style-type: none"> <li>- protection of personal health;</li> <li>- protection of nature and environment;</li> <li>- creation of ecologically favorable living conditions;</li> <li>- receiving economical benefits from green technologies installing;</li> <li>- formation of personal ecological consciousness;</li> <li>- supporting the needs of personal ecological consciousness.</li> </ul>	<ul style="list-style-type: none"> <li>- protection of personal health;</li> <li>- protection of nature and environment;</li> <li>- creation of favorable living conditions;</li> <li>- receiving economical benefits from green technologies installing;</li> <li>- formation of personal ecological consciousness.</li> </ul>	<ul style="list-style-type: none"> <li>- protection of personal health;</li> <li>- protection of nature and environment;</li> <li>- creation of favorable living conditions;</li> <li>- receiving economical benefits from green technologies installing.</li> </ul>

Source: Developed by the Author

The researchers from *Worldwatch Institute* underlined that in spite of all achievements, the green economy would never become a reality without the state assistance (with money, proper

laws, privileges and preferences, etc.), private investors and consumers [2]. For example, in the USA and most European countries, within the framework of sustainable development, many

governmental programs offer project financings, which assist to the decline of emissions of CO<sub>2</sub> and use of electric power from renewable sources. Quite often the use of green technologies leads to the decrease of the tax burden, and the use of alternative energy sources could provide stable long-term expenses planning, because prices on these sources of electric power are guaranteed by the state and remain unchanging during 10–20 years [3].

### 3. Classification of green business enterprises

Above mentioned interpretation of green business and all its features, signs and aspects, show that its activity is related to realization of environmental goods and services of various character. So far there is no the commonly accepted classification of the types of green business. In different countries

various industries are included to this notion. For example, according to the definition of the European commission to the enterprises of ecological industry belong those ones dealing with: a) production of goods and services in measuring, prevention, limitation or correction of ecological loss inflicted to the environment; b) liquidation of wastes and decrease of the noise level; c) production, realization, establishment and maintenance of ecologically clean technologies, which application reduces the use of raw material and pollution of environment [4]. This definition exposes one of the sides of green business, but does not cover all spheres where it can operate, that is why in Table 3 the classification of green business enterprises is given, which is developed according to data of the leading world organizations.

**Table 3. Classification of green business enterprises according to different classification features**

Classification feature of green business enterprises	Classification division
The object of ecological goods and services influence	<ul style="list-style-type: none"> <li>- goods and services, which either prevent or decrease emissions of harmful substances into atmosphere;</li> <li>- goods and services, which either prevent or decrease pollution of hydro resources;</li> <li>- goods and services, which either prevent or decrease creation of wastes;</li> <li>- goods and services, which either prevent or decrease soil degradation.</li> </ul>
The type of influence on the environment	<ul style="list-style-type: none"> <li>- production of equipment, devices and means of control for the environment protection;</li> <li>- production of equipment, devices for resources preservation;</li> <li>- activity connected with planning and organization of public services and advancing eco-business.</li> </ul>
The functional orientation and character of the carried out works	<ul style="list-style-type: none"> <li>- enterprises and organizations dealing with the study of natural resources potential and environment;</li> <li>- enterprises and organizations rendering ecological services to the subjects of economic activity;</li> <li>- enterprises and organizations dealing with re-cultivation and renewing of natural environment;</li> <li>- enterprises and organizations producing nature and resources preserving technique and technological equipment, as well as nature preserving products;</li> <li>- enterprises and organizations supporting functioning of ecological infrastructure.</li> </ul>

**Source:** made by author according to [4; 5].

### Conclusions

Summing up, it could be marked that green business is the new form of activity in an economic sphere, which is gaining more actuality and rapidly developing. This type of entrepreneurial activity presupposes the use of green technologies and formation of ecological consciousness of consumers and producers which distinguish this type of economic activity from other commercial types of activity. Thus, green business has not only ecological direction, but envisages the presence of three aspects: ecological, economic and social, characterizing it from different sides.

### Literature:

1. UNCTAD (1999) *World Investment Report 1999: Foreign Direct Investment and Development*. – <http://www.unctad.org/>.

2. Worldwatch Institute (2009) *State of the World 2010: Transforming Cultures*. – <http://www.worldwatch.org/>.  
 3. Hempling S., Elefant C., Cory K., Porter K. (2010) *Renewable Energy Prices in State-Level Feed-in Tariffs: Federal Law Constraints and Possible Solutions*, National Renewable Energy Laboratory.  
 4. Коваленко В.И., Кузнецов Л.М. (2007) *Исследование рынка экологических услуг*, СПбГИЭУ.  
 5. Sinclair-Desgagné B. (2008) *The Environmental goods and services industry in* “International Review.