

# **Development of environmental responsibility and related practices among Russian SMEs (based on a survey)**

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## **Abstract**

The paper examines Russian SMEs' practices of responsible behavior directed at environmental problems. The research goal was to observe those practices and detect drivers stimulating environmental responsibility of Russian SMEs. The research method used in the study is an interview. A comfortable sample of 77 SMEs' representatives was established using the snowball method. The paper used content-analysis for analyzing data from the interviews. A unit of count was a mention of environment-related responsible practices or activities, held by an SME following one of seven directions of social responsibility according to the ISO – 26000:2010 “Environmental issues” (ISO 26000:2010, 2012). From respondents' answers social and environmental practices of SMEs were identified. It is argued that environmental practices of Russian SMEs are less numerous and diverse than social practices, and mostly constitute sporadic, one-time actions. An external environment can hardly be considered a driver of responsible behavior in case of Russian SMEs. In industries that presume environmentally harmful operations, a leading role remains with the state authorities that enact environmental protection legislation and industry-specific norms aimed at stimulating responsible behavior and performance. The study revealed cases of SMEs' where personal choices of business owners and top-managers form a major determining factor of responsible

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behavior and its priorities. To promote SMEs' environmental responsibility and projects, authors suggest to develop environmental education and training; to increase awareness of environmental responsibility among the country's population and entrepreneurs; to adjust tax policies towards SMEs based on their resource consumption and polluting practices etc.

**Keywords:** small and medium enterprisers, ecologically responsible business, Russia

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## **Introduction**

Improvement of environmental responsibility is an important challenge that Russian Federation has to address at present. The country's orientation on commodity exports through 1990s and early 2000s resulted in anti-sustainable trends: an increasing share of the polluting and nature-exploiting plants in the national economy; export patterns based on natural resources, high rates of damage to the environment caused by pollution, environmentally unbalanced investment policies etc. (Bobylev, 2017, pp. 91-92). Currently Russia faces the task of creating its own national Strategy for Sustainable Development in the context of implementing United Nations Sustainable Development Goals within "The 2030 Agenda for Sustainable Development" (General Assembly, 2015), this marks a transition to the new type of economy. Industry 4.0 shapes the demand for environmentally responsible behavior of both large, medium and small firms, dissemination of "green" technologies.

In Russia small and medium enterprises (SMEs) create only 20,2% of GDP, however, those companies employ over 19 million economically active individuals (RBC, 2020). As stipulated by the National Project "Small and Medium Enterprises" (Passport of the national project, 2018), the share of SMEs in the Russian economy

should increase to 32.5% by 2014, and their share of employment should reach 25 million people. Globally, SMEs account for more than 90% of the total number of firms and are responsible for more than 70% of pollution (Nikolaou et al., 2016). Therefore, the formation of environmental responsibility among small and medium enterprises is of utmost importance in order to prevent further negative consequences for the environment and preserve nature. In the Russian Federation, this task corresponds to the performance of the instructions of the President dated 2017 (List of activities, 2017), reflected in the strategic documents aimed at providing environmentally sustainable development of the country.

Corporate social responsibility (CSR) constitutes a tool for achieving sustainable development within an organization or a company. It includes various business areas. According to the ISO 26000 standard, social responsibility means organization's liability for the impact of its decisions and activities on society and the environment through transparent and ethical behavior. Thus, environmental responsibility is considered as an integral part of the company's social responsibility. In legal terms, this is "the obligation to bear responsibility in the form of adverse consequences for the committed environmental offense in accordance with the sanction of the violated legal norm" (ISO 26000:2010, 2012). This paper examines the environmental aspect of SMEs' social responsibility reflected in their environmental / sustainable practices, therefore, making it possible to observe SMEs' environmentally responsible behavior.

The purpose of this work is to observe an environmental component among the areas of SMEs' social responsibility.

The objectives of the study are:

- to identify the presence of environmental practices in the activity of Russian SMEs;

- to identify the main drivers for socially responsible behavior and implementation of environmental programs by SMEs;

- to propose measures for developing environmentally responsible thinking among Russian entrepreneurs and environment-related practices of responsible behavior among Russian SMEs.

At present, there is an expert commentary that in Russia environmental problems in the context of corporate social responsibility are in a subordinate position compared to the solution of social problems (Belikov, 2019). In developed countries such as Germany, Japan and the countries of Western Europe, CSR presumes, first of all, solving environmental problems, saving resources, and assisting in combating climate change. There are concerns that amidst economic malaise, spread of the coronavirus and shortage of funds, investing in environmental and resource-preservation measures will be further hindered. Regional and local authorities, due to the scarcity of local budgets, often opt for preserving jobs even if those are at plants that use outdated equipment with damaging environmental trace, technologically hazardous production sites are created without complying with measures of environmental protection in an attempt to increase tax revenues and minimize necessary investments into maintaining environmental safety. The problem is aggravated by the weak activity of environmental NCOs.

The literature on management contains various examples of SMEs' successful practices and innovation abilities on the introduction of environment-protection instruments in developed countries. The size of their enterprises, according to (Moore and Manring, 2009), provides SMEs with a competitive advantage when forming their social and environmental responsibility compared to MNCs. Smaller firms are more flexible and creative, they learn and change faster, adopt innovations that have emerged overseas. The focus on sustainability enables SMEs to achieve rapid growth. Further, innovations that have emerged in SMEs are adopted by MNCs through merging with small and medium-sized enterprises.

(Testa et al., 2017) are considering how pressure on businesses from the perspective of environmental responsibility leads to the development of environmental practices. The impact of products on the environment and services is

calculated exemplified by a cluster in Italy and the Cardato Recycled program in the fashion industry and based on the life cycle assessment (LCA): from the extraction of raw materials to the final product's, process' or service' end of life. (Cote et al., 2008) analyze environmentally responsible SMEs in Nova Scotia, Canada and the benefits of the collaboration across several SMEs within the same territory during the supply chain implementation.

A series of contributions outlines the drivers for environmental responsibility and green innovations in case of SMEs in emerging markets, which include Russia. (Guo and Shi, 2012) consider the impact of an external environment (policies and laws, culture, finance, science and technology, market, services, etc.) on the growth of innovative SMEs in China. (Seth et al., 2018), by the example of Indian SMEs, look into the drivers of green manufacturing. Based on interviews with experts, the authors of this paper identified 13 drivers of SMEs' environmental innovation: environmental regulation and strict enforcement, supported by legislation; fines for non-compliance with norms and standards; financial incentives; leadership / top management commitment; modernized and innovative control measures, etc. (Seth et al., 2018, p. 1391). Moreover, the authors compare the incentives for the green manufacturing development in SMEs in contrast to larger businesses. The authors emphasize that the identified drivers (incentives) should be applied with respect to the social and cultural, political and economic environment of the country. The effectiveness of any decision can be understood only in the context of social and political, legal, demographic and economic conditions which these decisions are made under.

Contrary to a widespread scholars' belief that companies in developed countries are increasingly feeling the economic feasibility for environmental sustainability and are restructuring it in response to signals from the market, a number of empirical studies of SMEs points to the fact that their owners and managers' opinions marginally resonate with this "win-win" rhetoric. Research by (Revell, 2007) showed that entrepreneurs in the construction sector did not feel that

profit had been obtained due to eco-efficiency measures and that environmental responsibility is significant and sufficient to compensate for the investments in the time and implementation resources necessary to resolve environmental issues. The same conclusions were reached by (Klovienė and Speziale, 2015), who highlighted the need for large investments of time, money and management efforts as the reason for SMEs' low motivation in the development of environmental responsibility.

(Nikolaou et al., 2016) showed that managers / owners of SMEs have limited amount of information regarding the influence of their environmental footprint, they also believe that the small size of their operations is not able to cause serious ecosystem externality and impact on natural resources. All this leads to an underestimation of the need for environmental responsibility and low participation of SMEs in environmental activities.

The number of Russian publications on environmental practices and the environmental aspect of the SMEs' social responsibility is next to none. Most of the publications are dedicated to the social responsibility of SMEs in general or the environmental responsibility of business in general, without focusing on SMEs. A group of publications is dedicated to the stakeholders' impact on the environmental responsibility of business in general, but again without reference to SMEs. There is also a small number of works addressing the issues of environmental control within SMEs, if their activities are related to environmental impact.

(Savicheva, 2010) remarks the low level of social responsibility of Russian small businesses with regard to environmental safety. According to her research, before 2010 "only 15% of small and medium-sized businesses have included environmental programs in their statutes" (Savicheva, 2010, p. 35). Whereas in Germany 85% of SMEs give consideration to environmental aspects in their activities (Boboshko and Gusev, 2006, p. 33). In their opinion, the low level of SMEs' environmental responsibility in Russia in those years had two reasons: 1) low profit margins of this business segment due to systemic problems of the state economic policy regarding small business; 2) the social irresponsibility of many

small enterprises is the result of the state social irresponsibility. The last decade governmental authorities initiated profound changes in this regard.

(Yashalova, 2017) considers the prospects and the role of SMEs in the development of a “green” economy. According to her opinion, SMEs can become vehicles for creating ecological or “green” business in the country (Yashalova, 2017, p. 43). The author mentions as examples some environmentally responsible business models of Russian enterprises engaged in such areas as growing organic agricultural products; production of fuel pellets and biofertilizers; utilization and processing of solid household waste.

Analyzing the environmental responsibility of Russian business, (Wittenberg, 2010) remarks the historical reasons that contributed to the wasteful attitude towards natural resources. The reasons, according to the author, are also explained by the lack of state regulation, when “it is more profitable to pay a paltry fine to the supervisory authorities for environmental non-compliance (and more often to bribe an official) than to build expensive treatment facilities” (Wittenberg, 2010, p. 34). The author concludes that Russian business generally combines the features of both environmentally responsible and environmentally irresponsible behavior.

In researches on the environmental responsibility of SMEs in different countries, the state is positioned as an important driver of environmental responsibility by means of legal requirements. Although its influence on the formation of environmental responsibility in the literature is assessed ambiguously. Besides, (Murphy, 2001) argues that if market forces do not provide sufficient incentive to encourage environmental modernization, a clear justification occurs for increased governmental intervention and imperative for environmental reform and capacity building in firms in order to respond to this imperative. But even though a stricter regulatory regime would have a beneficial effect on corporate environmental control and financial management (Porter and Van der Linde, 1995), it could create significant bureaucratic barriers for SMEs, especially in trade and foodservice

businesses, which in the long run could drive them out of the market (Gerbens-Leenes et al., 2003).

### **Methodology**

An empirical study of Russian SMEs was conducted in 2015 and 2017 in 77 small and medium enterprises.

**Hypothesis 1.** For Russian businesses, environmental issues are less important and their responsible behavior is embodied through other priorities, including social care for customers, employees, charity, etc.

**Hypothesis 2.** SMEs' responsible behavior is determined by the preferences / personal attitudes of the SMEs' owners and managers rather than by the influence of an external environment.

**Hypothesis 3.** State regulation by means of environmental legislation, including industry standards, is an important driver of SMEs' green focus in industries where market failures are common.

Personal focused interview was used as a data collection method. The choice of interviews as a method for gathering information was determined by the intention to obtain first-hand information and take the Russian entrepreneurs' opinion towards social responsibility, including its environmental component, as well as to highlight practices of its implementation and the reasons why entrepreneurs chose them. The interview guide included such topics as definition of terms and motivation for responsible behavior; regulation of ethical behavior in the company, including its structural and process documentation, as well as respondents' awareness of the governmental regulation with regard to socially responsible behavior.

77 interviews (59 interviews from 2015 and 18 interviews from 2017) were collected based on a random sample. The sectoral composition of the economy in the sample is well represented. It includes enterprises in the following business areas: domestic trade (18%), professional services (10%), trade and mass catering (10%), finance, credit, insurance, pension fund scheme (10%), manufacturing (6%),

transportation (6%), public education, culture and art (5%), construction (5%), information technology and media (3%). Such industries as geology and exploration of mineral resources, geodetic and hydrometeorological services, health care, physical culture and social security, publishing and printing, real estate transactions, communications, non-governmental associations are represented by 1% of companies analyzed (1 firm). Other entities from the production sector comprised 9% of the sample. 8% of SMEs refused to provide information about their industry and the region of operation. The vast majority of companies under analysis operate in the Central Federal Count of the Russian Federation (86%).

The enrolment of respondents was done by means of the snowball method due to the difficulty of accessing companies - through personal contacts and networks of the authors, including other researchers, academic scholars and university graduates who agreed to participate in the study. During the data collection authors monitored such characteristics as the industry, the number of employees in the enterprise and the operation area. The number of respondents included business owners and leaders, as well as employees with a managerial status and at least 2 subordinates.

All interviews were transcribed and encoded. The content-analysis was used for analyzing data from the interviews. According to (Denzin and Lincoln, 2008), a four-stage process was implemented in the research: (1) data collection; (2) descriptive analysis; (3) selection of categories; (4) evaluation and data interpretation.

A unit of count is a mention of environment-related responsible practices or activities, initiatives and arrangements held by an SME following one of seven directions of social responsibility “Environmental issues” according to the (ISO 26000:2010, 2012). SMEs’ motivation of choosing environment-related responsible practices is also analyzed. Main results of the SMEs’ survey from 2015 and 2017 are presented further and illustrate their overall attitude towards the aspects of environmental responsibility.

## Results

Summary data on the number of social and environmental practices named by interviewed representatives of 77 SMEs is presented in Table 1.

Table 1. Practices of Responsible Behavior of SMEs according to ISO 26000:2010 (based on the survey results from 2015 and 2017).

<b>Companies' practices of responsible behavior</b>	<b>2015</b>	<b>2017</b>	<b>Total</b>
Responsible management practices	6	11	17
Human rights	3	7	10
Labor relation	34	15	49
Environmental issues	22	6	28
Compliance practices	14	12	24
Consumer relations	37	10	47
Participation in the life and development of local communities	9	12	21

According to the results of processing interviews with SMEs' representatives, environmental care is reckoned among the motives of socially responsible behavior (36% of mentions from the total number of respondents), but its priority is lower than the care for employees and customers. A number of respondents perceive a responsible company as the one that is involved in environmental activities:

“A socially responsible company is a company that primarily bears social responsibility to its employees and customers. And it does not forget about important issues associated with the society, ecology - finds opportunities (time, money) to participate in social programs and activities” (Manager).

Most respondents mentioned social care (payments for health insurance, training of employees), birth allowance for mothers or financial assistance in case of difficult straits (63% of references from the total number of responses) when they were asked about their understanding of responsible behavior. Relationship with consumers as a priority of responsible behavior occupies the second place in the respondents' answers (61% of mentions from the total number of responses) and is achieved through the compliance with a product or service quality standards,

attention to customers, provision of fair information about the products' features or their quality, reaction on the feedback from customers and settlement of complaints.

Specifically, medium-sized enterprises predominate among the companies that pointed out environmental responsibility: 20 medium-sized enterprises out of 77 cases (26% of the sample) and only 3 small enterprises (4% of the entire sample) designated environmental responsibility as a priority.

Most notably, environmental responsibility was mentioned by representatives of domestic trade enterprises, construction companies, transportation and logistics companies, IT-companies, travel agencies, a publishing and printing company, fitness centers and, of course, specialized environmental organizations.

Representatives of transportation and logistics companies consider minimizing harm from their primary activity as the main driver of environmental responsibility and emphasize its voluntary nature:

“Several times a year, the organization transfers a significant amount of money to the National Environmental Foundation, and also supports the Russian "Green" environmental movement. Why did we choose particularly environmental sector? Our choice is related to the fact that the company is engaged in logistics, that is, cargo transportation of various types. And even regardless the fact that we use environmentally friendly fuel, the environment is partially polluted because of our activities. Therefore, by sponsoring organizations that are focused on defending the environment, we pay a kind of compensation for possible damage to the environment that we could have produced, and thus present ourselves as a company with a high level of CSR” (CEO).

Representatives of the production and manufacturing sectors consider implications of business activities and the well-being of future generations as the main driver of their environmentally responsible behavior:

“At present, many other issues are emerging, for instance, environmental problems, social aspects, and so on. The question is that all these issues must be taken into account, because they may catch up with us not now, but in ten - fifteen

years, if we are not able to keep all this within certain limits, then it will cause a catastrophe” (CEO);

‘No, we do not damage the environment, because our forest yield is much higher than the number of trees we cut. If a tree is left on the stump, it will rot, and this will be a problem, so we need to do it on time” (CEO);

“...As to the environment, we can see examples of different countries: the more developed the country is, the higher is their concern about environmental issues. When a businessman cares about anything other than profit-making, it means that there is some sublime philosophy in the society...” (Manager).

Respondents representing medium-sized businesses from the construction industry noted that their firms take an active part in investing in the environmental sector, namely in the construction of treatment facilities, haul roads, and regulate the processing of hazardous waste in the Moscow region.

Responses analyzed evidence that by contrast with social initiatives (assistance to pensioners, children, shelters), where many incentives originate from the employees (Bataeva et al., 2020), the choice of the environmental responsibility is largely determined by the SMEs’ owners preferences:

“We support the environment, but we do not invest in other people's electric vehicles, we just reduce commissions. Why particularly these areas, and not some others? Just because I like it and my partner approves of it too” (CEO);

Or another respondent's answer: “It is undoubtedly driven by the need. We take on more environmental commitments than are required by law. This is, first of all, the shareholders’ position” (Manager).

Describing environment-oriented projects and activities, authors note that they include direct actions such as one-time projects and programs and participation in partner environmental programs.

In this context, it is necessary to mention the emission control of the hazardous waste and the equipment available for minimizing harm to the environment, which are referred to by managers of manufacturing and construction plants:

“...The company uses advanced equipment to reduce emissions and avoid any damage that the chemical industry can cause to nature” (Manager).

Caring for the environment is also demonstrated by direct actions:

“...We do not throw storage batteries into regular waste baskets. We put them into a separate box and then into special containers ... we bring them to a battery-processing plant that we build for recycling and processing used storage batteries from our production equipment” (CEO);

“There are also a variety of entertaining and educational activities that are held for children and employees: Earth Day and Water Day, when we clean up the territory. Not far from our office there is a forest park zone, we clean it up there and tell the residents of neighboring houses about the need to take care of the environment and save water. Also, currently a program called "Save water" takes place, when we, through various training events, as well as in the media, explain that water must be saved and that it must be clean” (CEO).

As examples of their participation in partner projects, respondents mentioned taking part in environmental programs, such as “Rivers run into the seas”, transferring money to National Environmental Foundations, participation in the “Green” environmental movements, participation in a program on leopards’ protection. Some respondents indicated that they “clean up territories” and “take out the rubbish in the parks”.

Another driver of environmentally responsible behavior is meeting requirements of supervisory authorities, which is considered obligatory but is not always perceived as unambiguously positive:

“We do not produce anything; thus, we do not invest much in the environment, but we have such a type of activity as cargo transportation, which implies an environmental tax” (CEO);

‘For instance, there are penalties for violating environmental legislation. If the Vodokanal laboratory finds that harmful substances in the sewage runoffs exceed

maximum permissible concentrations, then for each parameter you receive a penalty of 20 thousand rubles! So, once you washed clothes used by production workers with powder at work, and at this time Vodokanal specialists took samples in the well, the result is “get a penalty”!” (CEO).

As illustrations of environmentally responsible behavior in their industries respondents referred to Western companies or well-known brand stories about the companies’ investments in recycling, energy saving or water purification. For instance, a manager of a travel agency cites the case of the "Lush" company for human skin care, which does not use animal tests and uses recycled plastic for its cream tubes.

Overall, the respondents value the quality of environmental legislation and the practice of its enforcement at a low rate, primarily due to the dismissive behavior of major companies:

“Probably, if we talk about the governmental requirements, then we can approach environmental standards for mining companies, which still no one complies, but pays penalties...” (Manager).

Whereas, some respondents explain their unwillingness to develop environmental responsibility by the fact that green focus exclusively refers to major companies’ performance:

“I think that almost all companies of the top fifty, large, public, somehow include business ethics in their activities, because for them it is the must ... If we take Toyota, it is proud, that they are constantly sweating over making their steel engines more and more environmentally friendly ... Toyota significantly exceeds the emission requirements that are prescribed for them, but they make their cars much more environmentally friendly than required, so almost all major companies, anyway, say that they bear explicit social responsibility” (CEO ).

An important feature of the Russian SMEs’ practice, as it appears from the results of this study, and what many respondents indicated, is that the reason for

socially and environmentally responsible business behavior is the shareholders' and senior executives' personal choice:

“...I believe that business ethics exists in Russia thanks in large part to the initiatives of private entrepreneurs and business leaders. So, major or state-owned companies, in my opinion, should dedicate more time to this, because currently small and medium-sized businesses are pushing forward social programs much more actively” (Manager).

### **Conclusions and recommendations**

The results of this research confirmed hypothesis 1, which states that for Russian business the priorities of responsible behavior include environmental practices (36% of the total number of companies surveyed), but they take a lower position compared to practices related to labor and consumer relations (63% and 61% references respectively). Overall, the depicted tendency coincides with the conclusions (Belikov, 2019) on the priority of social activities over the environmental agenda.

Hypothesis 2 was also confirmed for the fact that the external environment, broadly defined as a set of social, cultural, political, economic conditions and public opinions expressed by politicians and customers, is not a CSR driver in case of SMEs. Russian business does not receive clear signals from the market for incurring environmental responsibility. The link of responsible behavior with the company's reputation and brand awareness was noted by few respondents. The owners' and managers' views resonate little with the 'win-win' rhetoric specified by the government and industry programs, politicians and community leaders. This is consistent to conclusions of (Revell, 2007) and (Savicheva, 2010). Therefore, the environment has not yet become a significant driver of the SMEs' environmental responsibility.

As to the role of SMEs' owners and managers in defining priorities of responsible behavior, many respondents from companies that work in the B2C

market segment indicated that practices are, indeed, chosen based on “the owner’s personal attitude and preference”.

SMEs’ environmental initiatives mostly are non-systematic one-time activities, including the ones organized as participation in well-known environmental programs and events of local communities.

Environmental responsibility is more often mentioned by respondents from companies that cause damage to the environment directly or indirectly by their operations: transportation companies, businesses from the production and manufacturing industries. Many firms in the Central Federal Count invest their resources in the construction of treatment facilities, haul roads and hazardous waste recycling of their own will. Companies from the industry of domestic trade, logistics, IT, catering and others that work primarily in the B2C market segment are joining the voluntary initiatives. This behavior is typical for the medium-sized enterprises rather than for the small ones.

Many respondents believe that environmental responsibility is rather an attribute of major, public companies’ operation and activity, and are not fully aware of the SMEs’ contribution to environmental pollution, as previously stated by (Nikolaou et al., 2016).

A weighty conclusion is that almost none of the respondents indicated that environmental responsibility contributes to their competitive advantages, including activities within joint projects with other SMEs. An insignificant number of respondents mentioned participation in joint environmental programs with other partners.

This provision allows for the enhanced governmental regulation, which according to (Murphy, 2001) compensates for weak market incentives and justifies increased governmental intervention, its establishment of environmental reform agenda and encouraging firms to respond to these imperative demands.

**Hypothesis 3** stating that governmental regulation through environmental legislation and industry norms is an important driver of SMEs’ green focus in

industries characterized by market failures, has been confirmed. The state, by means of legal requirements, is an important driver of environmental responsibility in production and manufacturing companies.

It should be noted that resource pooling, joint actions with partners are still poorly used by Russian SMEs from the sample. This form of cooperation is successfully used by SMEs in European countries as a response to economic trends related to globalization and the requirements of environmental legislation during economic crises (Nikolaou et al., 2016). Strategic alliances and collaborations with partners, industry peers, universities and financial institutions help individual small and medium-sized enterprises manage their environmental risks.

As the result of the research, the following recommendations on developing SMEs' environmental responsibility are formulated:

- environmental education and training for entrepreneurs and managers, shall be strengthened. Among other things, this will contribute to formation of responsible SMEs' leaders who are aware of effects their companies produce towards the environment and are able to pioneer innovations in the field of environmentally responsible behavior;

- environmental responsibility shall be promoted among the population, and specifically among entrepreneurs, relevant training programs shall be developed and offered;

- tax policy shall be adjusted (additional taxation of resource consuming and polluting plants shall be introduced, as well as, probably, tax support for environmentally responsible enterprises).

- the creation of non-profit organizations (unions, associations etc.), including those of SMEs and universities, professional and industrial associations, within which it may be possible to borrow and disseminate green innovations, shall be encouraged;

- professional and industrial associations shall be involved in formulation of an agenda for SMEs' environmental responsibility.

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