

The Companies' Behavior in the Context of Sustainable Development

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Abstract

One of the key problems of our time is the constantly changing environment and the scarcity of non-renewable natural resources. In this context the governments all around the world are making a lot of effort both to try to preserve the environment and the resources and to keep and even to enhance the economic development of their countries. On the other hand, people are getting more and more concerned about the future of the planet and are more and more demanding to the business and to the governments. All this inevitably reflects directly on the companies and they are trying to keep abreast of reality. The current article will discuss the main characteristics of the sustainable development and the green economy as well as present some of the actions the SMEs take in order to respond to the increasing expectations of their clients, to be in compliance with the sustainable development trends and at the same time to stay competitive on the market. Such actions are participation in emission trading schemes, greening of the supply chains etc.

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Introduction

The world is facing a set of complex environmental problems that have already made a negative impact on human life on the planet with man-induced changes and problems. Business in all its forms is the only force with sufficient capacity to overcome the important environmental problems of our time. In 2015, at a United Nations summit the world's leaders adopted the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals. This agenda, known as Sustainable Development Agenda, is an appropriate model for ensuring the planet's preservation against the backdrop of problems such as climate change, biodiversity loss and environmental pollution. The twenty-first century is accompanied by both the acute environmental and social problems and by the active actions of the governments and the business to solve these problems using economic tools and stimuli. Undoubtedly, the big corporations are more prepared to follow these trends as they possess more financial and human resources but in the general case that is not valid for the small and medium sized companies. Nevertheless the SMEs are also quite active in this field. This article is aiming to

discuss and illustrate the main characteristics of the sustainable development and the green economy – modern trends in the contemporary economic life, some of the reasons for the companies to be in line with these trends as well as to present some good practices of the SMEs in this field. The methodology used in this paper includes research and analysis of the sustainable development idea trends and the response of the SMEs to these trends. To illustrate the practice of the Bulgarian SMEs, results from two scientific projects on the subject, conducted in Bulgaria, are also used.

Sustainable development and green economy

Sustainable development is nowadays part of our daily life. Its ideas date back to the seventies and eighties of the previous century when the problems of the environment became obvious. By that time none of the developed countries had ever asked the question how their development influenced nature. But once they got rich and their people reached a high living standard, together with the obvious worsening of the nature due to the human activity, the environment protection became an issue. Ever since then this issue has been part of the political, economic and social agenda of the industrially developed countries to this day when it has turned to be a global issue. There are a lot of definitions and explanations of what the sustainable development is but the one that became popular and is widely used was developed in 1987 in a document prepared by the United Nations' World Commission on Environment and Development, chaired by the Norwegian former prime minister Gro Harlem Brundtland (known as the Brundtland Report), stating that the sustainable development is meeting "the needs of the present without compromising the ability of future generations to meet their own

need"¹. This report was another step towards the careful examination of sustainability. Sustainable development usually is described in terms of three spheres or pillars that include the environment, the economy and the society. This "triad" is also known as "economic, environmental and social" aspect or "ecology, economy and equity" (UN, 2014). This has been expanded by some authors to include a fourth pillar of culture, institutions or governance (Bartelmus, 1994). On the figure below these three circles have been visually presented in a slightly different perspective, namely the viewpoint of the designers:

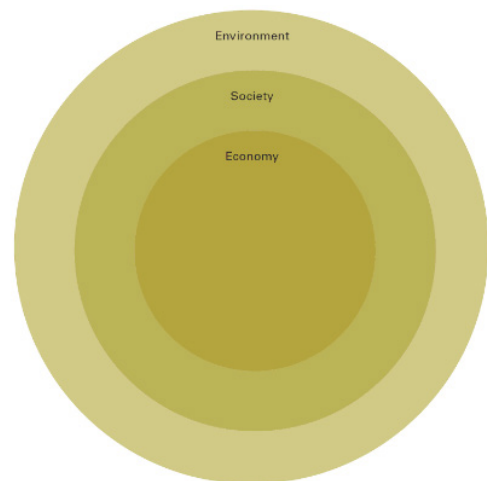


Fig. 1 Sustainable development basis
Source: Chick A., Micklethwaite P., 2011

The most recent developments in the field of sustainable development come from the United Nations General Assembly held in September 2015 in Paris. During this meeting the Agenda for sustainable development by 2030 was adopted with a set of 17 goals to be achieved by the year 2030. These

¹ World Commission on Environment and Development, 1987, Our Common Future. Oxford: Oxford University Press

goals became popular as the Sustainable Development Goals and are as follows²:

- No poverty
- Zero hunger
- Good health and well-being
- Quality education
- Gender equality
- Clean water and sanitation
- Affordable and clean energy
- Decent work and economic growth
- Industry, innovation and infrastructure
- Reduced inequality
- Sustainable cities and communities
- Responsible consumption and production
- Climate action
- Life below water
- Life on land
- Peace, justice and strong institutions
- Partnership for the goals

In the light of all these developments and the global concern for our planet new trends in the modern economy are observed such as green economy and even blue economy. The blue economy concerns ocean protection and is specifically directed to the “sustainable use of ocean resources for economic growth, improved livelihoods, and jobs while preserving the health of ocean ecosystem” (World Bank, 2017).

The green economy, on the other hand, comprises all other economic sectors. The main task of the green economy is how to use more effectively the benefits of a better quality of life for all people without destroying the nature. One of the most commonly cited definitions for the green economy belongs to the United Nations Environment Program: “an economy that leads to improved human welfare and social equity, with significant

reductions in environmental risks” (UNEP, 2011). The green economy is also seen as a low-carbon economy where resources are effectively used and social inclusion conditions are created (UNDESA, 2012). In the green economy, income and employment growth is driven by public and private investment that reduces carbon emissions and pollution, improves energy and resource efficiency, and protects against biodiversity loss (OECD, 2011).

All these global developments inevitably influence the economic activities of the companies.. It is obvious that sustainability has penetrated every sphere of our life and doing business-as-usual is no longer an option. Therefore the companies, regardless of their size and area of business, try to follow the trends and the requirements. Another issue is the real motives of the companies for doing this – whether it is of pure concern about the environment or it is because of fear of legal penalties or customers’ expectations.

The sustainable development and the companies

The above considerations about sustainable development and the green economy call for a society where there is a balance between economic, environmental and social goals. To achieve this target, all three dimensions of sustainable development must be met. Integrating the three dimensions of sustainable development must be a condition for achieving long-term corporate sustainability. However, this creates some difficulties for its practical application on company level as it provides very little guidance on how companies should identify the technologies and resources to respond to the needs and understand how to effectively balance their organizational responsibilities (Gimenez, Sierra, Rodon, 2012).

² <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

Articles

The economic pillar of sustainable development is the most comprehensive one and best applied by companies. They relate it mostly to production or production costs. But what is sometimes not so clear is the other two pillars – ecological and social. At the production level, environmental sustainability refers to the use of energy and other resources and the footprint left by the company as a result of its activity. Sustainable environmental development is often associated with waste reduction, pollution reduction, energy efficiency, emission reduction, reduced consumption of hazardous /harmful/ toxic materials, reduction of environmental incidents, etc. (Gimenez, Sierra, Rodon, 2012). Sustainable development of the social element shifts the focus to internal communities (i.e employees) and the society as a whole (Pullman et al., 2009). Socially sustainable development means that companies provide equal opportunities, promote diversity, foster social contacts within and outside the company, guarantee the quality of life of their employees.

Sustainability can also be defined as a strategy for the sustainable development process itself. In this respect the companies develop their own corporate sustainability. Corporate sustainability is understood as the ability of the company, through its management practices and market presence, to positively influence ecosystems (improving natural resources, reducing pollution levels, etc.), society (assisting the local population, creating jobs, etc.) and economic development (distribution of revenue through dividends, payment of fair wages, etc.). Sustainability of the firm can also exist when it creates value for its shareholders by increasing the positive and minimizing the negative effects on environmental, social or economic issues (Krechovská M., Prochazkova P., 2014).

There is an ongoing debate on the importance and application of sustainable development in a business context. It is defined in different ways, one of the definitions being that it is “Creating sustainable organizations through integrated economic, social and environmental systems” (Bansal, 2010). Broadly speaking, a company’s sustainable development means looking at its development over time, taking into account its commitment to healthy environment, economic and social systems so that it is more stable and resilient to internal and external shocks (Ahi P., Searcy C., 2013). Sustainable development issues are becoming more and more important to business. Often, there are various business initiatives that promote sustainability in different forms, but they are most often closely linked to “corporate social responsibility”. In most cases, Sustainable Development and Corporate Social Responsibility (CSR) are used as synonyms in the corporate context (Van Marrewijk, 2003). In fact, companies develop and implement corporate social responsibility (CSR) as a way to meet today’s sustainability requirements and at the same time improve their social reputation. At the beginning of the sustainable development discussion back at the beginning of the twenty-first century, it was enough for the companies to loudly state that they are environmentally responsible and to put some statements on their web-sites about their corporate responsibility thus improving their corporate reputation. Corporate reputation is defined as “a set of attributes attributed to a firm, determined on the basis of past business activities.” The reputation of a company “gives information to the public about how its products, jobs, strategies and perspectives are compared to those of its competitors” (Hoejmoose St., Roehrich J., Grosvold J., 2014). The corporate reputation and the corporate social responsibility were one of the

main instruments for the companies to gain competitive advantage. Nowadays the reality has slightly changed as being sustainable requires more and more activities by the companies and in order to preserve their competitiveness they have to reveal more information to the public and to convince their clients they are really sustainable.

One of the core activities of responsible and sustainable corporate behavior which is embedded in their corporate social responsibility is the voluntary disclosure of information to both stakeholders and the society as a whole. Why companies have to voluntarily disclose information about their environmental (sustainable) behavior? Some authors believe (Clarkson et al., 2008) that companies with good environmental behavior would like to disclose this information in order to gain or to keep a competitive advantage over companies that have poor environmental performance. These companies use different indicators and assess how their behavior towards nature will be accepted by the public, and based on the results of this assessment, decide whether to disclose their environmental behavior or not. Other authors (Yu, Freedman, 2011) claim that the information disclosure on environmental protection activities of the company is made because this information is requested by stakeholders, in most cases, these are the shareholders of the company. Yet other authors state that the companies are trying to behave in a way that society wants them to behave. By disclosing information about its environmental behavior companies are trying to convince their clients and the general public that they act the way they are expected to act. Companies voluntarily report on activities if the management perceived that those activities were expected by the communities in which they operate (Deegan 2002; Deegan, Rankin and Voght 2000; Cormier and Gordon 2001).

Corporate and carbon footprint activities have gained wide popularity thanks to initiatives such as the Project for disclosing information on carbon emissions and the availability of new standards and guidelines, including the 2050 Publicly Available Specification and the Greenhouse Gas Protocol (PriceWaterhouseCoopers, 2012). Leading companies integrate climate change factors into their business strategy (both short-term and long-term). The degree of disclosure of information about the emissions generated to the investors and other stakeholders, including to the general public, is unprecedented.

The main driver of change in companies' behavior in this respect are the numerous regulations and the threat of new penalties imposed by the governments on national and international level. There are a lot of voluntary activities that the companies take in order to reduce their environmental footprint. They do this based on various motives. They invest in environment protection measures for entirely economic reasons and corporate interests, such as avoiding larger penalties, achieving greater competitiveness on local or foreign markets, or optimizing company production costs. This statement is proved by a 2005 report of FORD on its greenhouse gas emission reduction activity where the company points out that there are three main reasons for investing in environment protection measures:

- Market share – Changes in consumer requirements in terms of environmental protection and reduction of air pollution make the company look for ways to improve and invest in environmentally friendly products;
- Compliance with legislation;
- Shareholder behavior – there is a growing interest among investors in the problems of

Articles

climate change, which makes the company investing in this direction.

The above reasons are proved also by Skelton (2013) who explains that the driving forces behind the companies activities in the field of sustainable development are regulatory (existing and expected) requirements, cost reductions, brand improvement, new revenue opportunities, stakeholder pressure, customer behavior and the risk of loss of reputation. This process also involves putting pressure on their suppliers. For example, the carbon footprint information program along the supply chain (including 49 companies, among which are Wal-Mart, PepsiCola, Unilever and Dell) sets a requirement that makes company vendors share information about their emissions. Most of the companies within the program are already rewarding suppliers that implement carbon-reducing processes and reject those who do not. (Accenture, 2012).

Regardless of the reasons why the companies act in sustainable manner, the reality is that in the past twenty years a lot has been made by the firms in the field of sustainable development. For example, in France, several businesses set up an Environmental Business Association (*Entreprises pour l'Environnement*), whose main task is to identify possible problems that could have a negative impact on the business of each of these enterprises. *Entreprises pour l'Environnement (EpE)*, created in 1992, gathers around 40 French and international large companies from all sectors of the economy, who share the vision of environment as a source of opportunities and progress and strongly believe that, just as actors cannot develop sustainably within a degraded environment, caring for the environment is a source of long-term value for businesses³. On its own initiative, the association sets targets

for reducing greenhouse gas emissions, develops a reporting and measuring instrument, and sets up a comprehensive monitoring methodology, which subsequently becomes a European Pollutant Release and Transfer Register (E-PRTR). Another example of taking a business initiative is the French company Leclerc, a French supermarket, which first began to write on the labels of its products the emissions that are released during their production. This is a marketing strategy for the company, aiming, through environmental protection measures, to attract more consumers to the products it offers. Dow Chemicals, an American multinational chemical corporation, begins fighting air and water pollution by introducing a "zero pollution" policy (upon Drucker, 2008).

The SMEs in the "green wave" context

The world's efforts, discussed above, inevitably have direct impact on the companies and they are trying to keep up with the reality. The Global sustainable development goals are quite challenging and put a lot of pressure on the business. Some of the latest studies conducted by KPMG (2018) show that four in every ten of the world's largest companies have already included the UN Sustainable Development Goals in their corporate reporting. The big corporations have the instruments and the resources to comply with these goals but is this also true for the small and medium-sized companies?

SMEs in the European Union (EU) account for 99.8% of the 20.4 million nonfinancial enterprises (Bergthaler, 2012). They are the "backbone of the European economy, they stimulate economic growth and provide jobs for a significant number of people" (Mazur, 2012). There are different classifications on that issue and the legal definition varies by country and by sectors and industries. The European Commission defines SMEs as

³ <http://www.epe-asso.org/en/qui-est-epe/>

those enterprises employing fewer than 250 persons that have a turnover of less than 50 million euros and/or a balance sheet total of

less than 43 million euros. SMEs are further broken down into micro, small and medium enterprises.

Table 1 *Criteria for medium, small and micro -sized enterprises*

Enterprise category	Persons employed	Turnover or	Balance sheet total
Medium	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Source: European Commission⁴

Taking into account this classification of the SMEs makes it quite obvious that the participation of the SMEs in the sustainable development activities is different than the one of the big companies discussed above. If we take the environmental pillar of the sustainable development for example on individual scale, the environmental footprint of the SMEs is quite insignificant. On an aggregated scale however their impact might exceed that of the large enterprises (OECD, 2017). According to Miller (2011) for instance the industrial pollution in Europe from the SMEs activities is about 60-70%. The key sectors where SMEs have a significant environment impact include livestock farming, construction, metal finishing, waste treatment, food and drink industry, textile and leather manufacturing, etc. (OECD, 2015). Therefore their active inclusion in the global sustainability goals and the introduction of sustainable practices are essential to the improvement of this environmental impact (Vasileva, Hristova-Pesheva, Ivanova, 2018).

The SMEs often can't attain the sustainability goals in the same way as the large companies. They are absorbed by their routines and the struggle to be competitive on the market therefore do not have the

time or the tools to think about sustainability. For SMEs, just as for the big corporations, going green is largely a voluntary action. Many SMEs are willing to invest in more energy efficient and environmentally friendly processes, but they require reliable partners in financing their investments and the right regulatory framework. However, they often face obstacles in getting access to finance as they are perceived as risky by most banks and the lack of access to finance puts an important constraint on them playing a more active role in supporting economic growth, jobs and development (Alibhai, Bell, Conner, 2017). That is also one of the main reasons why the policy makers worldwide focus on developing different instruments to draw the attention to these economic players. In 2010, the G20 launched its "SME Finance Challenge," and published its policy paper on "Scaling-Up SME Access to Financial Services in the Developing World" and the World Bank's Finance and Markets Global Practice developed its "SME Action Plan". In 2017, the UN General Assembly, recognizing the importance of these enterprises, decided to declare 27 June the "Micro- Small and Medium-sized Enterprises Day" to raise public awareness of their contribution to sustainable development (Zappia, Sherk, 2017).

Some examples from the European practice

⁴ https://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_small_and_medium-sized_enterprises#SME_definition

Despite all the difficulties that the SMEs face in their activities there are a lot of good examples for their active inclusion in the sustainable development agenda. The Dutch company SCHUTPAPIER, which has about 40 employees, produces paper made with fibers from local agricultural horticulture. After two years of development Schutpapier launched: Valorise by Schut Paper. This paper is the result of the collaboration with growers, knowledge centers and universities for the circular value from fiber from agricultural residues such as tomato plants. The best scenario is that agricultural residue (eg. tomato and pepper crops) is not composted, but 100% is used as raw material for the paper sector and as ingredient for other industries⁵. Another Dutch family company, Gulpener bier, uses ingredients for the beer production that are grown organically in the region and its production process is based on using solar energy. The bottles they use are recyclable. Moreover they require their suppliers not to use pesticides and they receive for their products a price 10% higher than the market. With these activities they have achieved a reduction of CO2 emissions by 18% in the last 5 years and 50% of energy from renewable sources (DESUR, 2017).

A German company that provides cleaning services, LIPPEMEIER GEBÄUDEREINIGUNGSDIENST GMBH, tries to minimize the environmental impact related to the activities of the company by using environmentally friendly materials that reduce the need to apply stronger chemical products. Their office building has solar panels for heating, ecological paving (Eco-paving) and a "biozone" for plants and dragonflies. They also use rainwater to wash the cleaning equipment. Another German company, PARAVAN, specialized in technologies for disabled vehicles. Since

2009 it has been a world leader in vehicles adapted for disabled people. The company is focused on the social aspect of the sustainable development and employs disabled people. They sponsor associations and self-help groups, they provide materials to schools related to the support reality of disabled people, make donations to schools, institutions, patients, cultural activities developed by disabled people, etc. (DESUR, 2017).

Green economy and the SMEs in Bulgaria

Within a project GreenB, Greening the Business (2015-2017), a study was conducted highlighting the main needs and some good practices of the Bulgarian business in line with the sustainable development and circular economy issues (National report on training needs assessment, 2016). The study highlighted the following major sectors of green business in the country.

Renewable energy sources

Considerable part of renewable energy is produced in hydroelectric power stations with total installed capacity of 1918,9 mW. Capacity of windmills increased dramatically due to subsidized price of the electricity they produce. Quick development of RES sector requires redirecting of stimuli for investments of SMEs towards small scale photovoltaic facilities, biomass and small hydropower stations. Decentralized energy production will lead to savings in the electricity grid.

Organic farming

Since Bulgaria's accession to the EU in 2007, interest towards organic farming has grown considerably. The drivers behind this interest are improved export demand, mainly in the EU, good production subsidies and favourable government policy. Many NGOs, usually funded by EU projects, undertook active

⁵ <https://www.schutpapier.nl/en/schut-papier/general-information/>

development, educational and promotional activities related to encouragement of the organic sector.

However, as of today, the land under organic farming is 0, 8% of all utilized agricultural land. Organic food sales are below 1% of total food sales due to lower purchasing power of local consumers. Over 90% of local organic products are exported while 80% of local organic market comes from imports. Local market is estimated between 6 to 8 million EUR. Nowadays more than 2000 shops offer organic food – mainly food for babies and milk products.

Prospects for organic farming are good, especially if the local market for organic foods develops and stimulates sustainable consumer demand. Farmers will access larger subsidies in the next 6 years and this is expected to lead to higher supply of organic products and establishing of processing facilities which can produce value-added products. Organic farming is one of the most efficient solutions to save depopulated rural areas by keeping local population at organic farms which create more jobs compared to mechanized agriculture.

Green products and services in Bulgaria

According to a survey conducted by Flash Barometer in 2012, 21% of SMEs in Bulgaria offer green products and services – organic products, eco label products, products containing considerable recycled resources or using eco design. The turnover of green products and services in Bulgaria is about 1-5% of total retail turnover.

Green products and services are offered by Bulgarian SMEs in different sectors and activities: food and beverages – 27%, construction – 24%, textile and garments – 3%, furniture – 2%, electronics and machine tools – 15%, others – 29%.

The Bulgarian SMEs are also active in the sustainable development field despite the

difficulties they face as most of the other EU SMEs. METALVALIUS EOOD for example is one of the leading metal recycling companies in Bulgaria, processing and trading ferrous and non-ferrous scrap metals, since 2004. It also offers a wide range of integrated waste management services. In strict compliance with current institutional, regulatory and environmental protection framework for the recycling industry, the company is fully licensed with all waste codes related to ferrous and non-ferrous scrap business. Being focused on continuous improvement of environmental management, it is certificated according to Regulation 2009/1221/EC (EMAS).

“Belovo Paper Mill” is another good example of sustainable behaviour. It is a company with established traditions and professionalism regarding products processing and finishing. It is the biggest tissue producer in Bulgaria and the market leader in away-from-home and tissue household products. The Company also produces various paper products such as: virgin and recycled (white, natural and coloured) tissue, MG paper, wrapping paper, greaseproof paper and fluting. A part of this production is being reprocessed in the company to finished tissue products and the other part in the form of jumbo rolls is being sold to converters in the country and abroad. The products of “Belovo Paper Mill” are well known under the trade mark BELANA which is spread in all points of sale in the country. Along the dominating position in the Bulgarian market, the Belana products have a traditional presence in the Balkan area. „Belana“ was chosen as Superbrand for 2009-2010. From 2013 “Belovo Paper Mill” has been producing tissue paper with EU Ecolabel.

Conclusion

Sustainability is part of our life nowadays and this is an undeniable fact. The activities in this area have started back in the 70s of the

Articles

previous century but in the last decades they have become inseparable from the economic life of every society and of the agenda of every government. The companies, no matter their size, are also influenced by this modern trend. The advantage of the big corporations is that they have more resources, both financial and human, to be in pace with the sustainable development issues. For the small and medium-sized companies this is more difficult. Nevertheless, as the selected examples prove, they also are active participants in the green economy and contribute significantly to the sustainable development agenda. The modern companies not only develop their own corporate responsibility but their management keeps a close look on the real practical implementation of these activities thus preserving the company's reputation. This behavior of the companies is expected to be kept and even enhanced in the future as it will ensure higher trust in their clients and competitiveness on the market.

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