

Chapter 5

Determinants of Sustainability Reporting in Medium Enterprises

Inna Sousa Paiva

Lisbon University Institute, Portugal

Irina Filipa Gavancha

Lusófona University of Humanities and Technology, Portugal

ABSTRACT

The importance of the relationship between sustainability and accountability in the business world has increased in the last few years. This chapter examines the determinants of sustainability reporting in 100 medium enterprises operating in Portugal with an excellent financial performance over the past three years. The main results demonstrate that firm characteristics, such as size, ownership structure, and sales growth, contribute significantly to explaining sustainability in these firms. The authors also find that medium firms exhibit a lack of interest in changing their business conduct to improve sustainability. Sustainability accounting is in a relatively early phase of development and the authors hope that this study will further the understanding of the firm characteristics that explain sustainability in medium enterprises.

INTRODUCTION

In recent years, the importance of Corporate Social Responsibility (CSR) for the economy in general and for firms in particular has attracted growing interest due to the competitive success and advantages it generates (Weber, 2008; Gallardo-Vázquez & Sánchez-Hernández, 2014). The business world is encouraged to work actively towards CSR because, in addition to providing a business opportunity in today's world, it frequently reflects the expectations of firms' customers, human resources, society, and stakeholders (Mark-Herbert & Von Schantz, 2007).

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Nowadays, firms are being encouraged to change their business conduct so as to address sustainability issues and, as a result, the accounting community has been discussing the relationship between accounting and sustainability and trying to understand how accounting can face this challenge (Passetti, Cinquini, Marelli, Tenucci, 2014; Burritt, 2012).

Empirical studies have demonstrated that there is no universal and cohesive method to measure sustainability and drawn attention to the problem of multiple and contrasting goals (Gallardo-Vázquez & Sanchez-Hernandez, 2014; Montiel, 2008; Saeidi, Sofian, Saeidi, Saeidi, & Saaeidi, 2015), the influence of internal and external factors (Christ & Burritt, 2013), and specifically industrial contexts (Azapagic, 2004; Nordheim & Barrasso, 2007). While the environmental and economic dimensions have been the focus of many of these studies (Saeidi et al., 2015; Bouwens & Abernethy, 2000; Castilla-Polo, Sánchez-Hernández, & Gallardo-Vázquez, 2017; Clarkson, Li, Richardson, & Vasvari, 2008), the accounting dimensions of sustainability have been neglected due to the difficulty of assessing some of these issues from an accounting perspective (Cooper, Coulson, & Taylor, 2011; Gallhofer, Haslam, & van der Walt, 2011).

In the last few years, a discussion has evolved on sustainability accounting in small and medium businesses in an attempt to understand how accounting can respond to the challenges of sustainable development. In light of this, this chapter analyzes the determinants of corporate social responsibility in medium sized firms that stand out for their excellent financial performance. In order to rule out effects due to differences in the regulatory environment, we focus on Portuguese private firms. There is a large predominance of small and medium-sized companies (SMEs) in the Portuguese economy as compared to listed companies. Although CSR is mainly discussed in the context of larger companies, it also is a strategic tool to enhance the competitiveness of SMEs. This makes it an ideal environment to study sustainability in private firms. The data set is formed by 100 medium enterprises operating in Portugal in 2016. .

The main results provide evidence of large firms investing in sustainability management and external reporting to increase visibility and to inform stakeholders. They also demonstrate that the control of power in medium firms could lead to less interest in adopting business conduct that addresses sustainability. More specifically, our study reveals that firms with higher ownership concentration and sales growth characteristics have great difficulty in accepting changes leading to greater sustainability.

Sustainability accounting is in a relatively early phase of development and our study makes several contributions to the literature addressing medium-sized enterprises. Our aim is to foster a more balanced relationship between business and environmental and social issues.

This chapter is structured as follows: Section 2 reviews the concept and measurement of corporate social responsibility, and relationship with accounting. Section 3 develops the hypotheses of the determinants of sustainability. Section 4 describes the data collection process, variables, measurement and methodology. Section 5 presents the findings and section 6 concludes and suggests avenues for further research.

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