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What are the main drivers of SMEs' production of sustainability reports?

¿Cuáles son los principales impulsores que conducen a las PYMEs a elaborar informes de sostenibilidad?

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Abstract
This study aims to deepen our understanding of the theoretical frameworks that underlie SMEs' disclosure of sustainability information. Qualitative empirical research was conducted on SMEs that proactively engage in sustainability reporting. To identify the key drivers, interviews were conducted with a sample of Spanish SMEs, and the reasons for sustainability reporting provided by informants were ranked by frequency. Our findings indicate that stakeholder theory holds a prominent position, closely followed by legitimacy theory and the resource-based view. This ranking reveals a mixture of external and internal drivers, contributing to the existing literature by emphasizing the predominance of management factors over sociological arguments in favor of sustainability reporting in SMEs. Regulators, practitioners, and academics can benefit from these findings to better understand the decision-making processes of SMEs regarding sustainability reporting practices, while accounting for their relationships in the contexts in which they operate.

Keywords: SMEs; sustainability; theories; drivers; reporting; interview; discourse
JEL Classification: M14; M40; M41; Q5

Resumen
Este estudio pretende profundizar en nuestra comprensión de los marcos teóricos que subyacen a la divulgación de información sobre sostenibilidad por parte de las PYMEs. Con el objetivo de identificar los principales impulsores de la sostenibilidad, se llevó a cabo una investigación empírica cualitativa sobre una muestra de PYMEs españolas que participan proactivamente en la elaboración de informes de sostenibilidad. Los resultados indican que la teoría de los grupos de interés ocupa una posición destacada, seguida de cerca por la teoría de la legitimidad y por la teoría de recursos y capacidades. Esta clasificación revela una mezcla de impulsores externos e internos, lo que contribuye a la literatura existente al subrayar el predominio de los factores de gestión sobre los argumentos sociológicos a favor de la elaboración de informes de sostenibilidad en las PYMEs. Reguladores, profesionales y académicos pueden beneficiarse de estas conclusiones para comprender mejor los procesos de toma de decisiones de las PYMEs en relación con las prácticas de elaboración de memorias de sostenibilidad, teniendo en cuenta al mismo tiempo sus relaciones en los contextos en los que operan.

Palabras clave: PYMES; sostenibilidad; teorías; impulsores; informes; entrevistas; divulgación
Clasificación JEL: M14; M40; M41; Q5

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1. Introduction

A heightened societal awareness of environmental and social issues has propelled sustainability concerns to the forefront of modern business considerations. Consequently, sustainability has evolved from a peripheral concept to a central business strategy (Teruel-Gutiérrez, 2020). Companies are increasingly recognizing that by integrating sustainability into their business models, they can reduce costs through more efficient resource use (e.g., energy), attract and retain customers who value sustainability, and enhance their brand image and reputation. Sustainability is now embedded in various business operations, including management decisions, accounting practices, and reporting practices (Dienes et al., 2016). Over the past few decades, there has been a significant proliferation of sustainability information, evidenced by the increasing number of firms voluntarily disseminating such data since the 1990s (Somoza, 2023). A survey by KPMG found that 96% of the world's top 250 corporations have issued sustainability reports (KPMG, 2023). Small- and medium-sized enterprises (SMEs) are no exception; sustainability reporting (SR) serves as a means for these companies to communicate their sustainability efforts and performance to various stakeholders. While terms such as corporate social responsibility (CSR), social accounting, corporate citizenship, and environmental, social, and governance (ESG) reporting are often used interchangeably (Nasreen et al., 2023), there is a growing regulatory effort to standardize these concepts under the term 'sustainability reporting'.

Adopted by the United Nations (UN) in 2015, the 2030 Agenda for Sustainable Development established 17 Sustainable Development Goals (SDGs) aimed at addressing global challenges such as poverty, environmental protection, and the improvement of lives worldwide (United Nations, 2015). To fulfill these goals, governments globally are enacting regulations and initiating programs that mandate businesses to minimize the environmental impacts of their operations (Roxas, 2021). Consequently, the SDGs are exerting pressure on businesses to enhance their sustainability practices and to increase transparency in reporting these efforts.

On January 5, 2023, the European Union (EU) implemented the Corporate Sustainability Reporting Directive (CSRD), marking a significant modernization and strengthening of the regulations governing social and environmental disclosures required for companies. The CSRD broadens the scope of reporting to include a wider array of large companies and listed SMEs. Notably, it also extends these obligations to some non-EU companies that surpass a revenue threshold of €150 million within the EU market. The primary goal of the CSRD is to enhance transparency and accountability concerning the social and environmental impacts of companies. This enhanced disclosure is intended to empower investors and other stakeholders with the necessary information to effectively assess a company's impact on people and the environment. Additionally, for investors, the CSRD aids in identifying potential financial risks and opportunities associated with sustainability challenges, including those related to climate change. Moreover, the directive promotes cost reductions for companies over the medium to long term by standardizing sustainability reporting practices. The initial application of the CSRD's regulations by companies will take place in the 2024 financial year, with the first reports due in 2025. Furthermore, the CSRD mandates the assurance of reported sustainability information and introduces a digital taxonomy for classifying sustainability data.

Companies subject to the Corporate Sustainability Reporting Directive (CSRD) will be required to comply with the European Sustainability Reporting Standards (ESRS) established by the European Financial Reporting Advisory Group (EFRAG), an independent stakeholder body. The initial set of ESRS, published in the Official Journal on December 22, 2023, as a delegated regulation, applies universally to all companies under the CSRD, irrespective of their industrial sector. These standards are designed to align with EU policy and to contribute to, as well as draw from, international standardization efforts in sustainability reporting. Concerning SMEs, EFRAG has initiated a public consultation on the Exposure Draft ESRS for listed SMEs and the Exposure Draft for the voluntary reporting standard for non-listed SMEs, which will remain open until May 2024. This consultation highlights the critical role of these companies as integral parts of the value chains of larger firms under the CSRD. Given the growing evidence that SMEs will soon be required to report sustainability information, they warrant special attention.

In this context, the growing information demands of capital markets highlight the fact that sustainable investors are placing ever greater importance on both financial and non-financial information in their investment decision-making processes (Marti et al., 2023). While these demands can be attributed to corporate factors such as company size or industrial sector, as well as broader contextual factors encompassing economic, political, and social environments, the fundamental factors driving SR are generally considered to be the maximization of shareholder wealth, the preservation of organizational legitimacy, and the mitigation of reputational risks (Dienes et al., 2016). In this line of research, Castilla-Polo and Guerrero-Baena (2023) investigated the economic rationale for SR—in other words, the business case—within the unique context of SMEs, which to date remains a voluntary practice.

Although sustainability reporting (SR) is crucial for both large corporations and SMEs, the specific advantages and challenges associated with this practice vary based on organizational size and complexity. Several factors hinder SR in SMEs, including financial and human resource limitations, the inherent complexity of existing frameworks, and time constraints. These challenges underscore the critical need to understand the factors—beyond mere economic considerations—that drive SMEs to produce sustainability information. In current sustainability reporting research, there remains a significant knowledge gap concerning the main factors that influence SMEs' engagement in sustainability reporting endeavors (Setyaningsih et al., 2024). While extensive research has been conducted within large corporations, the specific factors influencing SMEs have received comparatively less scholarly attention. Given the vital and multifaceted role that SMEs play within the broader business landscape, a more comprehensive understanding of the unique drivers guiding SMEs to engage in sustainability reporting is paramount to fostering their active involvement in sustainability initiatives.

It is crucial to highlight the significant research gap in the domain of sustainability reporting among SMEs, particularly in qualitative studies. This gap impedes a comprehensive understanding of how SMEs approach sustainability reporting and the key factors or drivers that influence their decision-making processes in this regard. In this research context, the primary objective of this study is to explore the theories underpinning the drivers of SMEs' disclosure of sustainability information. To this end, interviews are conducted with key informants from a sample of Spanish SMEs. The aim is to analyze how SMEs' discourses align with different theoretical perspectives, thereby identifying the main factors influencing their decision to disclose sustainability information.

This study contributes to the existing literature on SR in several ways. Firstly, it provides a comprehensive literature review of the current state of SR in SMEs, relating to various theoretical frameworks, thereby helping to bridge the research gap by offering a deeper understanding of the theories explaining sustainability reporting in SMEs. Secondly, it identifies several key drivers of SR in this specific context, including internal and external factors that span management and sociological approaches. Thirdly, the study offers theoretical and practical implications for the future of sustainability disclosure in SMEs. The insights gained from analyzing the interviews through different theoretical lenses can aid SMEs in making more informed decisions about their sustainability reporting practices. Additionally, these insights can assist policymakers in developing supportive initiatives tailored to the specific needs and characteristics of SMEs regarding SR, and guide sustainability consultants in customizing their advice and support to be more relevant and effective for SMEs.

The remainder of this paper is organized as follows. In the next section, the theoretical background underpinning the empirical analysis is described. Section 3 presents the research design. The main results are shown in Section 4, and some final comments are provided in Section 5.

2. Theoretical framework

There is no general consensus on the most appropriate classification for CSR theories (Bikefe et al., 2020). Within the academic discourse surrounding CSR, three primary theoretical frameworks compete to explain the main drivers of firms' decision to engage in these practices (Silvestri & Veltri, 2020). The first framework, the *normative approach*, emphasizes a moral imperative. Under this perspective, it is argued that organizations, and the individuals within them, have a moral obligation to consider the interests of all stakeholders, not just shareholders. This translates into a duty to act responsibly towards society and the environment, integrating ethical considerations into business decision-making. In contrast, the *instrumental approach*, also known as the business case perspective, focuses on the potential for CSR to enhance financial performance. Proponents of this view suggest that by engaging in CSR initiatives, companies can improve their bottom line through various mechanisms, including attracting and retaining top talent, enhancing brand reputation, and fostering customer loyalty. Finally, the *political approach*, also referred to as the corporate citizenship perspective, highlights the potential role of businesses in addressing societal issues where government regulations are inadequate. This framework emphasizes a political dimension to CSR, suggesting that companies can act as responsible citizens by proactively addressing "regulatory gaps" caused by weak or insufficient social and environmental standards. These three frameworks provide distinct theoretical lenses for understanding corporate drivers of CSR engagement. In practice, a combination of these factors may influence a company's decision-making process.

Silvestri and Veltri (2020) summarize the foundational understanding of drivers in corporate social responsibility initiatives. However, in addition to these three main general approaches, other more specific ones have been proposed to further explain SME decision-making regarding sustainability reporting. Initially proposed by Frynas and Yamahaki (2016), and later expanded upon by authors such as Del Gesso and Lodhi (2024), these specific frameworks enrich the discourse by integrating new perspectives—namely, internal and external drivers—to explain why companies engage in CSR practices. In this paper, we purposefully adopt the framework established by Frynas and Yamahaki (2016) to achieve a comprehensive understanding of the theoretical underpinnings driving SME sustainability disclosure. This framework offers a robust structure encompassing both external and internal drivers of SR. It highlights relevant theories such as stakeholder theory, legitimacy theory, and institutional theory among the external drivers, emphasizing the influence of external actors and pressures on a company's decision to disclose sustainability information. Regarding internal drivers, the resource-based view and social capital theories are considered, allowing us to explore how a company's internal resources and capabilities, along with its network of relationships, motivate sustainability disclosure. The strength of the Frynas and Yamahaki (2016) framework lies in its ability to bridge disciplinary boundaries, aligning management approaches with stakeholder theory, legitimacy theory, and the resource-based view, while sociological perspectives are reflected in social capital theory and institutional theory. This multifaceted approach ensures a holistic exploration of the theoretical landscape surrounding SME sustainability disclosure (see Table 1).

Table 1. Main theories explaining SR practices in firms

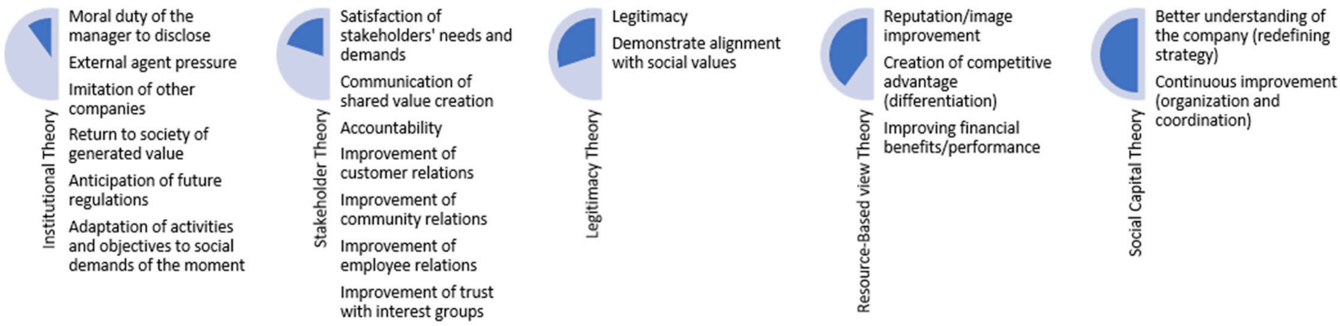
Theory	Explanation of the theory
Stakeholder theory (Carroll & Buchholtz, 2003; Park et al., 2017; Russo & Perrini, 2010; Sen & Cowley, 2013)	→ Need for managers and firms to satisfy the demands of the stakeholders: economic, legal, ethical, and discretionary expectations. → Contrary to the conventional view of the firm, the CEO of a firm has fiduciary duties to all of its stakeholders, and not only to the shareholders. → Primary stakeholders: any individual, group, organization, institution, community, and the environment, as well as internal managers and employees, customers, investors, government, and suppliers. → Respond to stakeholders to pursue legitimacy within the region where the firm conducts business. → The implementation of CSR depends on the CEO’s ideology. → Profits are not considered the firm’s sole objective; the success of the firm is also based on its stakeholder relationships. → Integration of “business in society”: business becomes responsible for its activities within society in its long-term economic operations and creation of value. → Firms have to act in a responsible way to avoid stakeholder pressures and to achieve a better society. → Nonfinancial reports are the means through which firms become accountable to relevant stakeholders for their corporate strategy. → Importance of inter-stakeholder relationships (among stakeholders and with the firm). Stakeholders’ relationships with the firm depend on the communities in which they operate.
Legitimacy theory (Deegan, 2019; Font et al., 2016)	→ Legitimacy is the generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. → Corporate behavior must be aligned with social norms and values for the firm to be given a license to operate. → Organizations are viewed as being part of a broader social system. → The right to use resources must be earned organizations are deemed legitimate vs illegitimate. → Successful organizations are those that conform to community expectations: legitimate firms. → Illegitimate organizations fail to comply with community expectations and, therefore, will face sanctions imposed by society (e.g., reduced demand for their goods and services). → Legitimacy is perceived to be a “resource”: organizations depend on legitimacy to survive, which must be conferred by society. → Legitimacy is often linked to the idea of a “social contract” between society and firms, covering the expectations that society has about how an organization should conduct its operations. → Managers will take corrective actions (mainly through disclosure) in case of departures from the social contract (society’s expectations).
Institutional theory (Deegan, 2019; Font et al., 2016)	→ Firms are socially embedded within a set of formal institutions such as government regulations, and informal institutions such as norms, conventions, and shared beliefs, all of which constrain economic behavior. → Managers likely undertake certain actions (including disclosures) because they believe they “have to” (regulative pillar), feel they “want to” (cultural/cognitive pillar), or think they “ought to” (normative pillar). → Coercive forces: pressure from regulators and from actors on whom the organization depends for resources, such as customers. → Mimetic forces: imitation of other firms. → Normative forces: pressures from social factors such as trade associations, NGOs, and the media. → State regulations and the existence of tax laws may influence the socially responsible behavior of firms. → Corporate responsibilities vary by country.
Resource-based view theory (Branco & Rodrigues, 2006; Font et al., 2016)	→ Firms engage in CSR and sustainability practices and reporting to derive internal and/or external benefits from developing new resources and capabilities. → When the resources and capabilities are valuable, rare, inimitable, and non-substitutable, they can provide a sustainable competitive advantage. → CSR strategy can be formulated to achieve and sustain a competitive advantage and superior financial performance. → Classification of resources: tangible resources, including physical assets such as raw materials, infrastructure, and equipment; intangible resources such as reputation and technology; and personnel-based resources such as culture, training, commitment, loyalty, and knowledge.
Social capital theory (Branco & Rodrigues, 2006; Russo & Perrini, 2010; Sen & Cowley, 2013)	→ Social capital is the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. → Social capital refers to connections among individuals—social networks and the norms of reciprocity and trustworthiness that arise from them — which can improve the efficiency of society by facilitating coordinated actions. → Social capital stems from the networks, norms, and trust that a firm develops within a group, and provides the impetus to pursue objectives shared by all members belonging to that group. → The importance of relationships and networks as a resource is embedded within the networks of recognition. → Firms participate in social activities to increase their social capital. → Social capital is an organizational advantage that emerges from business relationships. → Social capital theory assumes that goodwill, formed in relationships among people, can be leveraged as a resource. → Social networks provide access to resources and information that assist firms in their functioning. → CSR is the outcome of the relational accumulating process through which SMEs build their social capital.

Source: Own elaboration

After establishing the theoretical framework, we next explore the various orientations in sustainability responsibility narratives. First, *stakeholder theory* suggests that managers must meet the demands of all stakeholders, encompassing "economic, legal, ethical, and discretionary expectations" (Guillén et al., 2022; Park et al., 2017). Second, *legitimacy theory* asserts that corporate behavior must align with societal norms and values to secure a license to operate (Font et al., 2016). Third, deriving from legitimacy theory, *institutional theory* posits that firms are deeply embedded within formal institutions, such as government regulations, and informal institutions like norms, conventions, and shared beliefs (Guillén et al., 2022; Lee et al., 2017). Fourth, the *resource-based view* contends that firms engage in social and environmental responsibility practices and reporting to achieve internal and/or external benefits by developing new resources and capabilities within the firm (Amaeshi et al., 2016; Branco & Rodrigues, 2006). Lastly, *social capital theory* argues that firm owners integrate into a network of relationships with various stakeholders within the community, fostering cooperation and concerted efforts toward common goals (Adler & Kwon, 2002; Guillén et al., 2022). Despite these established theories, the literature reveals some ambiguity regarding the drivers of sustainability disclosures. While some companies genuinely prioritize CSR, others predominantly utilize social and environmental disclosures for corporate spin and to enhance their corporate image (Dobbs & van Staden, 2016). The primary arguments presented by each theory are summarized in Table 1.

Considering the theoretical frameworks reviewed and their potential to explain the drivers of sustainability reporting (SR), we propose the following research themes for exploration in the subsequent qualitative study, as illustrated in Figure 1.

Figure 1. Main topics according to the different theoretical approaches



Source: Own elaboration

3. Sample and method

3.1 Sample

The field study was specifically designed to focus on a relevant institutional setting, namely sustainability reporting (SR) in Spanish SMEs, as these firms have been key actors in the development of sustainability practices over the past two decades. It is crucial to consider the context in which social and environmental practices occur because it significantly shapes the focus and applications of these practices (Carroll & Brown, 2018). This paper adheres to the EU definition of SMEs as firms that "employ fewer than 250 persons and have either an annual turnover not exceeding EUR 50 million or an annual balance sheet total not exceeding EUR 43 million" (European Commission, 2015, p. 12).

A targeted sampling approach was employed to identify Spanish SMEs engaged in sustainability reporting practices. Two primary criteria were used for inclusion: First, SMEs were selected if their headquarters were located in Spain and they were listed on one of the most prominent sustainability reporting databases, either the Global Reporting Initiative (GRI) or the United Nations Global Compact (UNGC). Second, SMEs were included if they had independently published a report that demonstrably contained sustainability information, which could include dedicated sustainability reports, annual reports with dedicated sustainability sections, or similar documents. The target population for the subsequent interview phase consisted of SME owner-managers within the identified companies. A total of 15 SMEs agreed to participate in the study.

Determining the number of interviews to conduct is crucial for the validity of qualitative studies (Fusch & Ness, 2015). Since there is no consensus in the literature regarding the optimal sample size, researchers often rely on the concept of "data saturation"—the point at which no new information is gleaned from additional interviews (Guest et al., 2006). While some authors suggest that the number of interviews should typically range between 15 and 30 (Marshall et al., 2013), there is general agreement that saturation can be initially detected after the sixth interview and clearly by the twelfth (Guest et al., 2006). Francis et al. (2010) propose a robust "10+3 model," involving conducting 10 interviews until saturation is reached, followed by three additional interviews to confirm it. We adopted this approach, observing clear data saturation between the sixth and tenth interviews, and conducted five additional interviews to ensure robust data saturation. Consequently, we conducted a total of 15 interviews. Table 2 provides a concise description of the sampled firms and the informants from each SME interviewed, justifying their inclusion in this study.

Table 2. Profile of the participating SMEs

SME Id.	Key informant position	Reasons for inclusion in the qualitative analysis: proactive vision on SR
SME1	Technical manager of CSR and innovation	Small food and beverage cooperative. That company first reported in 2019. Its "Sustainability Report" is 110 pages long and adapted to GRI standards.
SME2	CEO	Micro consultancy services limited company. Communication on the progress of the UNGC has been reported since 2014. The report is less than 30 pages long and is mainly focused on reporting about how the principles of the global compact are being met.
SME3	CSR manager	Small food and beverage limited company. The CSR report has been prepared since 2019 following the UNGC framework. It is up to 90 pages long with a focus on organizational policy, stakeholders, and compliance with SDGs. In the report, the company claims to be a pioneer in its sector.
SME4	CEO	Medium-sized transport public limited company. A CSR report has been produced since 2018. Information is disclosed under the GRI-Standards framework and includes information regarding SDGs.
SME5	CSR & sustainability manager	Medium-sized real estate public limited company. From 2014, a CSR report called a "sustainability report" was produced under the GRI-4 framework. After a gap in 2016, information was again reported in 2017 under the name of "annual report" and was updated to GRI-Standards. At the same time, the company reports on the UNGC framework.
SME6	CEO	Micro engineering technical services company. In 2019, the company supported the Ten Principles of the UNGC. The company is planning to produce a CSR report following this framework.
SME7	Vice CEO	Micro engineering technical services company. The company's first sustainability report was produced in 2010 under the GRI-3 framework and was updated to GRI-4 in 2014. In addition, the company has supported the UNGC from 2011 onwards.
SME8	CSR & sustainability manager	Micro consultancy services company. Since 2005, the company has supported the UNGC and in 2010 it released its first sustainability report. Between 2010 and 2012, reports followed the UNGC framework. In 2013, the sustainability report changed to the GRI-4 framework and, finally, in 2015, it was updated to GRI-Standards.
SME9	Sustainability officer	Medium-sized logistics company. The firm has communicated its sustainability performance since 2014 using the GRI framework. In 2018, it adopted GRI standards.
SME10	CEO and CSR manager	Micro civil work and building services company. It has reported on its sustainability actions annually since 2004. It initially cited GRI principles (GRI-G2), but since 2016 has reported under GRI standards. Moreover, the company has supported UNGC since 2004.
SME11	Responsible for content strategy and communication	Manufacturers and distributors of medical supplies, this SME has been producing GRI reports since 2015. However, for the preceding 30 years, a basic report without a specific format was prepared for discussion during assemblies. As a federation, the notion of disclosure is deeply rooted.
SME12	Communication and CSR manager	A passenger transportation company that has been producing GRI reports since 2017, with a main interest in identifying KPIs and SDGs. Internally, it has created a CSR manual to implement socially responsible actions.
SME13	Human Resource manager	Since its creation, this socio-sanitary services cooperative has been committed to responsible management. It has supported the UNGC since 2012, while also obtaining SA8000 certification, which benefits its operations.
SME14	Sustainability manager	A construction SME with multiple activities. It has been compiling CSR reports since 2018 without adhering to any specific format; however, in the last two years, it has adopted the GRI framework.
SME15	Communication and CSR officer	An SME in the healthcare sector committed to individual care. It has been generating GRI reports since 2015, adhering to the GRI-4 guidelines. Additionally, a CSR committee regularly convenes throughout the year to oversee the implementation of such initiatives and guide report preparation.

Source: Own elaboration

Figure 2 provides a summary of the main guidelines supporting the disclosure of sustainability information by the SMEs participating in the study. The Global Reporting Initiative (GRI) is the most extensively used, followed by the United Nations Global Compact (UNGC). These guidelines are also the most commonly employed among large companies.

Figure 2. Sustainability reporting frameworks followed by the SMEs in the sample

Source: Own elaboration

3.2 Methods

This study employed a qualitative methodology, primarily utilizing semi-structured interviews with individuals responsible for each SME’s sustainability strategy (Alvesson, 2011; Qu & Dumay, 2011). We conducted an exploratory interpretative analysis of the Spanish SR field to identify the principal drivers behind SMEs’ decisions to disclose sustainability practices. By gathering opinions from CSR reporters, we gained valuable insights into the internal workings and decision-making processes of companies' reporting practices (Dobbs & van Staden, 2016). The interview questions were designed to gauge the level of commitment to SR and to assess the various drivers influencing the production of sustainability reports.

To maintain the spontaneity characteristic of semi-structured interviews (Berg & Lune, 2012), we informed interviewees about the general research objective when initially contacting them, without revealing specific questions. This approach prevented them from preparing answers in advance. Ethical considerations were carefully managed by informing interviewees about the interview procedures, obtaining permission to record the interviews (all agreed), and assuring confidentiality of the data.

In the analysis phase, the transcripts of the interviews were interpreted and reflected upon multiple times (Miller & Crabtree, 1999) by the three authors of this study. We convened several times to periodically reflect on the data and identify key themes. Thematic codes were manually created to organize the information (Braun & Clarke, 2006). This coding process helped to distill the information and make the data more manageable (Berg & Lune, 2012). Following Boyatzis’ (1998) definition of a code as “the most basic segment, or element, of the raw data or information that can be assessed in a meaningful way regarding the phenomenon” (p. 63) we coded any parts of the interview data that seemed pertinent to understanding the drivers behind SMEs’ disclosures of social and environmental information. To ensure that no potential insights were overlooked, we coded the entire dataset and as many elements as possible, resulting in 23 codes. Overarching themes were then identified, and the relationships between the initial codes and these themes were delineated before the themes were further refined and reviewed. To ensure the reliability of the coding process, inter-researcher coding comparisons were conducted periodically (O’Connor & Joffe, 2020).

4. Results

This paper details how SMEs articulate their sustainability strategies, linking these discussions to various theoretical frameworks to deepen our understanding of the primary drivers behind their disclosure of sustainability information. We analyze the most frequently cited drivers within each framework to evaluate the effectiveness of these theories in supporting SR.

4.1 SR: an overview of the findings

The analysis of the interviews with SMEs revealed numerous valuable insights into the reasons behind SR, providing a detailed and nuanced understanding of the theories that explain such disclosure decisions. The most frequently cited justifications for SR—and, therefore, the most recurrent themes in the interviewees’ responses—show a notable trend towards the application of arguments aligned with *stakeholder theory*, as well as the *resource-based view* and *legitimacy theory*, each observed to have a comparable level of influence. References to *social capital theory* were minimal, a finding that holds significant implications relative to prior research. Overall, these interviews offer a rich and contextualized perspective on the theoretical foundations of SR, underscoring the importance of these theories in guiding future research and practices. Table 3 presents an overview of the theoretical frameworks explaining the reporting drivers identified among the interviewed SMEs.

Table 3. Frequency of theoretical evidence by SME

Theory	SME 1	SME 2	SME 3	SME 4	SME 5	SME 6	SME 7	SME 8	SME 9	SME 10	SME 11	SME 12	SME 13	SME 14	SME 15	Total	Average (%)
Stakeholder theory	3				2				2	1	4	2	2	3	3	22	32.8
Resource-based view		3		1		1	1	2			2		1	2	2	15	22.4
Legitimacy theory	2			2		1					3	3	2		2	15	22.4
Institutional theory	1		1	1	2	2	1				2	1		1		12	17.9
Social capital theory			1											1	1	3	4.5
															Total	**67**	**100.0**

Our findings confirm the presence of multiple co-existing drivers influencing SMEs' engagement in sustainability reporting (SR) practices, although some drivers play a particularly pivotal role. In most cases, reporting practices are supported by a combination of stakeholder theory, legitimacy theory, and the resource-based view. However, in only four of the SMEs analyzed, a single theoretical framework was predominantly referenced: the resource-based view (SME2 and SME8) and stakeholder theory (SME9 and SME10). This diversity indicates that SR practices are too multifaceted to be adequately explained by a single theory (Garde Sánchez et al., 2017). A deeper understanding of SR practices can be achieved by integrating insights from multiple theories rather than relying solely on one approach.

Table 4. Frequency of codes relating to each theory

Stakeholder theory	**Absolute frequency**	**Percentage (%)**
Need for managers and firms to satisfy the demands of the stakeholders: economic, legal, ethical, and discretionary expectations.	8	36.4
Primary stakeholders: any individual, group, organization, institution, community, and the environment, as well as internal managers and employees, customers, investors, government, and suppliers.	1	4.5
Respond to stakeholders to pursue legitimacy within the region where the firm conducts business.	2	9.1
Profits are not considered the firm's sole objective; the success of the firm is also based on its stakeholder relationships.	1	4.5
Integration of "business in society": business becomes responsible for its activities within society in its long-term economic operations and creation of value.	4	18.2
Nonfinancial reports are the means through which firms become accountable to relevant stakeholders for their corporate strategy.	7	31.8
Total	**22**	**100.0**
Resource-based view theory	**Absolute frequency**	**Percentage (%)**
Firms engage in CSR and sustainability practices and reporting because of internal and/or external benefits generated by developing new resources and capabilities in the firm.	10	66.7
CSR strategy can be formulated to achieve and sustain a competitive advantage and superior financial performance.	4	26.7
Classification of resources: tangible resources, which consist of physical resources such as raw materials, infrastructure, and equipment; intangible resources such as reputation and technology; and personnel-based resources such as culture, training, commitment, loyalty, and knowledge.	1	6.7
Total	**15**	**100.0**
Legitimacy theory	**Absolute frequency**	**Percentage (%)**
Legitimacy is the generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.	6	33.3
Corporate behavior must be aligned with social norms and values for the firm to be given a license to operate.	1	5.6
Successful organizations are those in conformance with community expectations: legitimate firms.	2	11.1
Illegitimate organizations fail to comply with community expectations and, therefore, will face sanctions imposed by society (e.g., reduced demand for their goods and services).	2	11.1
Legitimacy is perceived to be a "resource": in order to survive, the organization depends on legitimacy, which is conferred by society.	4	22.2
Legitimacy is often linked to the idea of a "social contract" between society and firms, covering the expectations that society has about how an organization should conduct its operations.	1	5.6
Managers will take corrective actions (mainly, disclosure) in case of departures from the social contract (society's expectations).	2	11.1
Total	**18**	**100.0**
Institutional theory	**Absolute frequency**	**Percentage (%)**
Managers likely undertake particular actions (including disclosures) due to a belief that they "have to" (regulative pillar), they have a feeling that they "want to" (cultural/cognitive pillar), or because they feel they "ought to" (normative pillar).	2	16.7
Mimetic forces: imitation of other firms.	8	66.7
Normative forces: pressures from social factors such as trade associations, NGOs, and the media.	1	8.3
Regulations by the state and the existence of tax laws may have a bearing on the socially responsible behavior of firms.	1	8.3
Total	**12**	**100.0**
Social capital theory	**Absolute frequency**	**Percentage (%)**
Social capital refers to connections among individuals—social networks and the norms of reciprocity and trustworthiness that arise from them that can improve the efficiency of society by facilitating coordinated actions.	1	33.3
Social networks provide access to resources and information that assist firms with their functioning.	1	33.3
CSR is the outcome of the relational accumulating process through which SMEs build their social capital.	1	33.3
Total	**3**	**100.0**

SMEs predominantly consider external drivers for sustainability reporting (SR), with three-quarters of the references falling into this category, while internal drivers appear less frequently, accounting for nearly one-fourth of the references. Our findings indicate that SMEs are more likely to engage in SR when they aim to improve their relationships with society, a factor frequently mentioned in theories associated with external drivers. Although the related literature is dominated by *stakeholder theory* and *institutional theory* (Frynas & Yamahaki, 2016), our results place the *resource-based view* in a prominent position. This significant finding underscores the importance of internal drivers in analyzing SR, alongside external drivers.

Furthermore, management theories predominate over sociological frameworks in the explanations for SR provided by the analyzed SMEs. Specifically, explanations based on legitimacy, stakeholder, and resource-based views tend to focus on strategic motives for engaging in sustainability practices, such as profitability and reputation enhancement. In contrast, the least common drivers, notably social capital, emphasize individual values and convictions rather than profit motives. Institutional drivers also appear to be less relevant, although some interviewees noted an indirect effect of CSRD, particularly due to their roles as suppliers to large firms. Although differences between SMEs and large companies might suggest that the business case for SR differs in SMEs—with social values and beliefs purportedly exerting a greater influence than strategic reasons—our results do not support this hypothesis.

4.2 Sustainability Reporting: main theories

In the subsequent paragraphs, we analyze the most significant aspects of the discourses from SMEs. Table 4 displays the specific codes applied to the themes outlined in Figure 1, along with their frequency in the discourse analysis.

4.2.1 Stakeholder theory: the most cited

This theory is the most commonly cited justification for SR decisions among the analyzed SMEs. Notably, the need to satisfy stakeholder demands appears in one out of every three references to drivers. The predominant theme within this theory is the need for SMEs to consider the demands of all stakeholders, which accounts for 36.4% of the references. Under this theoretical framework, SMEs undertake SR to meet the diverse expectations of stakeholders, including customers, investors, employees, and regulators. A recent study by Nasreen et al. (2023) underscores the significant role that stakeholder theory plays in explaining SR, noting that the increasing number of stakeholders has complicated the process of identifying which ones are most critical to a company, making it a complex and ever-evolving challenge.

Contrary to the expectations set by the CSRD, the crucial role of large corporations has received minimal attention from the participants. While there is a general acknowledgment of customers, the strategic implications of large corporations for SMEs are seldom discussed. Another significant finding, prevalent in 31.8% of the discourses, is that fulfilling stakeholders' expectations is viewed as a long-term strategy, mentioned in 18.2% of references. Additionally, 31.8% of the discussions highlight that SR facilitates transparent communication with stakeholders. It is noteworthy that SMEs are focusing on their stakeholders independently, without considering their role in the broader value chain.

4.2.2 Legitimacy theory and the resource-based view: the differentiation motive

In second position, *legitimacy theory* and the *resource-based view* are mentioned with similar frequency by SME participants—each accounting for one out of every five of the total drivers identified. These theories incorporate both external and internal drivers, yet primarily adopt a management approach. In both cases, a common need is identified: legitimacy theory is concerned with creating a better image that aligns with community values, while the resource-based view focuses on the development and enhancement of reputation as a key intangible asset. Notably, the discourse analysis reveals that reputation is frequently cited as a benefit linked predominantly with legitimacy, underscoring its importance in the responses analyzed.

On the one hand, legitimacy is viewed as a critical resource for SMEs, essential for their survival and granted by society, accounting for 22.2% of the factors identified. SR has the potential to validate SMEs’ behaviors among key stakeholders, a factor deemed pivotal for their continued survival and prosperity, noted in 33.3% of the cases. Furthermore, long-term concerns frequently emerge in SME discourses, presenting evidence that contradicts the descriptions in the literature of SMEs' short-term orientation (Handrito et al., 2023).

On the other hand, the resource-based view underscores the importance of a firm's resources and capabilities in driving its success and guiding its strategic decisions, with 66.7% of references supporting this perspective. CSR is seen as a tool for SMEs to create valuable intangible assets, notably reputation, which is highly prized by these companies. Within the discussions, reputation and legitimacy are closely intertwined. A positive reputation bolsters legitimacy by fostering trust among stakeholders, while legitimacy, in turn, enhances reputation by signaling a company’s acceptability to societal norms. This mutual reinforcement highlights the critical role of both reputation and legitimacy for SMEs. Importantly, reputation management is emphasized not only as a concern for large corporations; participants have repeatedly noted its importance for the SMEs under analysis.

4.2.3 Institutional theory and the mimetic effect

The fourth position is held by *institutional theory*, with 17.9% of the references. This theoretical framework suggests that SMEs are shaped by the institutions and norms prevailing in their environment. According to this view, organizations adapt to the characteristics of the environment where they operate in order to conform to dominant societal rules, norms, and routines (Ferri, 2017). Prior research indicates that a firm's national institutional context, which includes legal, regulatory, and professional structures, influences its propensity to issue standalone CSR reports. The institutionalization process encompasses three primary forms of influence: coercive, normative, and mimetic. Coercive pressures arise from external regulations and formal sanctions, normative forces stem from shared societal norms and values, and mimetic influences occur when companies imitate the successful strategies and practices of others. Within the analyzed discourses, two out of three answers show a clear interest in adopting well-known examples in SR. The presence of coercive and normative pressures (both at 8.3%) in the discourse of SMEs is marginal, despite the prominence of the normative context resulting from both the CSRD and ESRS standards. Only one SME referred to SR as a way to comply with the law, confirming the limited influence of future regulations on the discourses analyzed despite the complex scenario SMEs will face.

4.2.4 Social capital theory: the least cited

Surprisingly, *social capital theory* is the least commonly referenced by SMEs to explain their interest in SR, accounting for only 4.5% of the citations. This low frequency is unexpected, considering its well-established role in explaining internal processes through knowledge exchange networks with large companies. Despite its potential, social capital received only limited acknowledgment. Originating from the realms of sociology and economics, this framework underscores the importance of connections and networks that individuals form, enabling access to invaluable information, resources, and support that would otherwise be unattainable. Membership in the Global Compact (UN) was specifically mentioned by one of the key informants in this context. Our findings contrast with those reported by Roxas (2021), who suggested that SMEs leverage social capital to compensate for their limited resources and implement sustainability practices, thereby mitigating the disadvantages of their small size.

Furthermore, our results challenge the distinction made by Russo and Perrini (2010) between large companies and SMEs, where they assert, "The notion of social capital is a more useful way of understanding the CSR approach of SMEs, whereas stakeholder theory more closely addresses the CSR approach of large firms" (p. 207). Contrary to Russo and Perrini's (2010) suggestion that "managing with relevant stakeholders through specific managerial procedures might allow SMEs to exploit their social capital" (p. 218), our findings indicate that the frameworks typically associated with large corporations, such as stakeholder theory, may be equally or more applicable to SMEs in certain contexts.

5. Conclusions

The evidence presented in this paper indicates a growing awareness of sustainability among SMEs, with many integrating sustainability strategies into their operations. This study analyzes the main theories that explain SMEs' decisions to engage in SR, examining the discourse of key informants and linking it to the theoretical frameworks established in the literature. To thoroughly identify the potential theoretical underpinnings of SR, we adopted a comprehensive framework that includes both external and internal drivers, as well as management and sociological approaches. External drivers encompass *stakeholder theory*, *legitimacy theory*, and *institutional theory*, while internal drivers are associated with the *resource-based view* and *social capital theory*. Furthermore, the analysis incorporates a management perspective through *stakeholder theory*, *legitimacy theory*, and the *resource-based view*, while sociological aspects of SR are explored through *social capital theory* and *institutional theory*.

We can conclude that these theoretical frameworks should be viewed as complementary rather than competing, with stakeholder theory playing a central role in explaining the drivers behind SMEs' engagement in sustainability reporting (SR). As a significant contribution of this study, various established theoretical lenses were deductively identified from the interviews to explain why SMEs are motivated to undertake SR. Strategic reasons, primarily influenced by external drivers, are at the core of the discourse provided by SMEs in explaining their SR decision-making processes. In contrast, internal drivers and sociological theories appear to be less influential. These results enrich the existing debate in the literature by providing new insights from a qualitative perspective.

The findings of this study are particularly valuable for policymakers and other stakeholders involved in formulating and implementing policies for SMEs. Understanding the drivers of SR is crucial to encourage more reporting, representing one of the main practical contributions of this research. In most parts of the world, SR remains voluntary for SMEs. However, in Europe, the CSRD aims to address some of the issues with current sustainability disclosures to provide market participants with relevant information for their investment decisions, including for SMEs listed on EU regulated markets. The CSRD seeks to enhance the "trickle-down effect" on SMEs, which, despite not being directly subject to the Directive's requirements, might still need to produce sustainability reports to satisfy investor and other stakeholder demands. The critical role of SMEs as suppliers to large companies also heightens the pressure they face to report sustainability information. Additionally, SMEs that opt out of producing sustainability information risk missing significant benefits, such as improved access to finance and opportunities to secure new business partners, attract consumers, and retain talent. Ultimately, most SMEs will likely join this movement due to the influence of large companies and the demands of their customers and suppliers. While SR remains voluntary for SMEs, it can enhance transparency and trust, leading to positive outcomes within the financial market dynamics of our current business environment.

Our findings integrate various theories to elucidate the reasons behind sustainability reporting decisions. In practice, while each theory typically emphasizes a single priority for sustainability reporting, our research indicates that SME managers' decisions are often influenced by a combination of factors from these theories, contributing a significant theoretical insight to this field of research. Indeed, our major conclusion is that presenting compelling reasons for sustainability reporting could motivate other SMEs to disclose their sustainability endeavors. Additionally, there is a notable lack of qualitative methodologies in the literature on sustainability, particularly concerning SMEs. This study addresses this gap by introducing discourse analysis to uncover the underlying reasons behind sustainability reporting. This methodological approach also constitutes a theoretical contribution that should be highlighted.

This study has several implications for the future of sustainability disclosure in SMEs. Firstly, it underscores the need for further research on this topic, particularly regarding the long-term impacts of sustainability disclosure and the development of more effective sustainability reporting frameworks. Secondly, it highlights the importance of stakeholder engagement in promoting sustainability disclosure among SMEs. Thirdly, it recommends that policymakers consider developing regulations that require or encourage sustainability disclosure in SMEs, tailored to their unique characteristics as small entities. Overall, this study makes a valuable contribution to the existing literature on sustainability disclosure in SMEs. It provides insights into the current state of sustainability reporting within this sector, identifies the key drivers of disclosure, and discusses the implications for the future of sustainability disclosure in SMEs.

Finally, we acknowledge several limitations of this study. First, due to its qualitative nature based on interviews with participants, the findings may not be generalizable to the broader SME population. Conducting a larger quantitative study could enhance the generalizability of these results. Second, although the study reveals a correlation between stakeholder theory and sustainability reporting, it does not establish causality. Future research employing longitudinal analysis could further explore causal relationships.

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