

# Sustainability in Portuguese Companies: Observatory of SDGs Report

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On the 3<sup>rd</sup> of October 2023, the *Centre for Responsible Business and Leadership* of the Catholic University presented its Annual Report prepared by the Observatory of the UN Sustainable Development Goals (SDGs) on sustainability in the Portuguese business sector. The study was based on a survey of 61 large companies – 54 of which are multinationals –, and 108 small and medium-sized companies (“SME”) – 101 of which are multinationals.

The conclusions drawn in the report are wide-ranging and include the following ones:

1. Around 97% of large companies and 87% of SMEs consider sustainability to be a substantial growth opportunity for the competitiveness of their businesses;
2. Corporate sustainability reporting has increased in general in Portuguese companies, with a noticeable increase amongst large companies;
3. Large companies in Portugal are much better prepared to act to promote sustainability and the SDGs than SMEs;
4. 67% of large companies believe they are prepared to comply with the legislation that will impose corporate reporting duties in relation to sustainability, while only 7% of SMEs say they are;
5. 82% of large companies have created or maintain a sustainability department, while only 9% of SMEs do so;
6. All the companies say they have difficulties implementing the SDGs, mainly due to a lack of expertise;
7. The majority (around 70%) of SMEs have not yet attended any training sessions on the subject;

Which led the team to conclude that “Portuguese companies are on an upward trajectory, but there is still a lot to do” (our translation). In this sense, their progress towards meeting these objectives needs to be increasingly ambitious and real.

Analysing specifically some of the questions that the companies surveyed were asked, it is useful to note the substantial differences that distinguish the sustainability performance of large companies compared to that of SMEs.

**Corporate structure.** Of the large companies studied, the overwhelming majority are public companies (86.7%), while the majority of the SMEs analysed are both private companies (60.2%) and family businesses (74.1%) – regarding SMEs, the predominant sector of activity is industrial goods and services (27.8%).

**Sustainability as a benefit?** The idea that sustainability is beneficial to business is widespread on the national scene.

**Changes implemented.** Half of the SMEs surveyed believe that their businesses have already undergone changes due to sustainability concerns, with many of them seeing sustainability as “the way forward” and a way to differentiate themselves in the market in the future. Nevertheless, it’s interesting to note that 80% of the large companies go much further and ensure that sustainability is already clearly incorporated into their operations, with 68.8% of them stating that alignment with sustainability is already part of the company’s DNA.

**ESG.** It is interesting to compare the degrees of importance that large companies and SMEs attach to environmental, social and economic sustainability. For SMEs, the economic pillar remains the most important dimension, while for large companies, the social pillar has become the most important one to address.

**Awareness of the SDGs.** The companies were also asked about their awareness of the sustainable development goals, and the study revealed that SMEs have lower levels of knowledge of these issues compared to large companies. In both groups, the level of knowledge seems to have decreased compared to the answers given in the first year of the study, which is an interesting fact to analyse. This reduction in reported knowledge may be a consequence of the fact that companies are actually more aware of extent of these issues and its many implications and are therefore more cautious than in the previous year when it comes to classifying themselves as having a high level of knowledge about the SDGs.

**SDGs in particular.** The study also sought to ascertain which SDGs are of greatest strategic importance to companies. SMEs, which in the first year of the study gave the greatest importance to the social SDGs (1, 2, 3, 4 and 5), now point to 5 (gender equality), 7 (affordable and clean energy), 8 (decent work and economic growth), 9 (industry, innovation and infrastructure) and 12 (responsible consumption and production) as the most important ones, which are more in line with the responses given by larger companies.

**Training and partnerships.** On the other hand, both in terms of training on the SDGs and the existence of taskforces in companies specifically committed to sustainability, it is clear that the companies surveyed can still improve, although SMEs lag far behind larger companies. For example, 73.1% of SMEs report not having done any training on the SDGs in their company in the last two years. This is an interesting finding of the study, in the sense that it highlights the need for companies to boost the development of their activities in conjunction with the community and strategic partners. In terms of partnerships established, large companies point to social and international organisations and universities as their main partners. Curiously, SMEs point to customers, suppliers and social organisations.

**Reporting obligations.** In relation to the new reporting obligations set out in the Sustainability Reporting Directive, which will apply as early as 2024 to large companies and in 2026 to listed SMEs, the study reveals that 60,2% of SMEs are unaware of the reporting obligations that will be applicable to them. Two of the factors identified as obstacles to complying with these obligations are the lack of data on how to implement them in practice, as well as the complexity of collecting this information.

**Motivations.** SMEs' main motivations for adopting the SDGs relate to identifying an opportunity for business growth, but also a way of gaining a competitive advantage and acquiring a reputation in the market. Once again, financial sustainability continues to be the most important element for SMEs. Large companies, on the other hand, seem to be more concerned about their impact on society, seeing the SDGs as a means of participating in the resolution of social and environmental problems.

**Gaps.** The study also led to the conclusion that, despite the importance given to each dimension of sustainability and the different SDGs, there is still a very significant imbalance between the importance given to them by companies and what is actually done to put them into practice, something that can be seen in both large companies and SMEs. The same holds true for the importance companies attach to incorporating the SDGs into their strategy and their level of implementation in practice. These are the main gaps that the study identifies. It can be concluded that the companies surveyed are already largely aware of the importance of sustainability in its various guises, and more specifically of the need to adopt policies and practices in line with the SDGs. However, there is still a long way to go to fully implement them, even more so for SMEs – which form the overwhelming majority of companies in Portugal – than for large companies. In terms of sustainability, the biggest difference between large companies and SMEs relates to the importance given to the environmental pillar and its implementation. Similarly, the biggest gap between the importance attributed and its implementation in practice is in the environmental SDGs. It can therefore be seen that companies are increasingly aware of the importance and need to take care of the environment. Another interesting conclusion of this study is that gender equality represents a much smaller gap for SMEs than for large companies, although it exists in both cases.

In light of the above, it became clear that there is a widespread business perception that investing in sustainability is a significant, low-risk opportunity for business. Above all, it is worth noting that there has been a positive evolution compared to the results of the first year of the study, with companies, particularly LCs, being more committed and strategically aligned with the SDGs. SMEs, for their part, are on the move.

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