WATER: A BIG MARKET FOR SME

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Abstract

Small and medium enterprises (SME) represent the largest driving force of European development. SMEs have an important role in the Portuguese economy and it is relevant the research of SME in the water industry, given the challenges that this type of industry currently faces, at productivity level, growth and innovation applied, because they achieve lower results compared to larger companies, usually caused by legal obstacles, financial, administrative and bureaucratic, with the negative effects of the crisis, which led to the overall reduction of the total demand for their products and services, followed by worsening conditions of payment by customers and the lack of working capital. Methodologically was carried out the literature review, concepts, laws and regulations that contextualize the Corporate Social Responsibility (CSR) and water industry. At second level, it will be developed an empirical analysis through a content analysis of SME as case studies that requires deeply understanding of them. Indeed, the Portuguese economy relies on the management of this strategic product (water), because its scarcity. However, this research can be used as a source for research on sustainability and projection SME in future, because this business will be a strategic industry, due to opposite relation between the rarity and the value of drinking water on the planet, as well as, the increase needs of the population. The authors defend the implementation of CSR strategies to get sustainable success of SME.

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Abstract

Le piccole e medie imprese (PMI) rappresentano la più grande forza trainante dello sviluppo europeo. Le PMI hanno un ruolo importante per l'economia portoghese ed è rilevante la ricerca delle PMI nel settore idrico, Considerate le sfide que questo tipo di industria si trova attualmente, a produttività di livello, la crescita e l'innovazione applicata, perché essi raggiungono risultati inferiori rispetto ai più grandi aziende, di solito causate da ostacoli legali, finanziari, amministrativi e burocratici, con gli effetti negativi della crisi, che ha portato alla riduzione complessiva della domanda totale per i loro prodotti e servizi, seguita dalle condizioni di pagamento peggioramento da parte dei clienti e la mancanza di capitale circolante. Metodologicamente è stata effettuata la revisione della letteratura, i concetti, leggi e regolamenti que contestualizza la *Corporate Social Responsibility* (CSR) e settore idrico. A secondo livello, che sarà sviluppato un'analisi empirica attraverso l'analisi del contenuto del caso PMI studi que richiede profondamente comprensione. In effetti, l'economia portoghese si basa sulla gestione di questo prodotto strategico (acqua), perché la sua scarsità. Tuttavia, questa ricerca può essere utilizzata come fonte di ricerca sulla sostenibilità e la proiezione PMI in futuro, perché questa struttura sarà un'industria strategica, a causa di relazione inversa tra la rarità e il valore dell'acqua potabile sul pianeta, così come, Aumentare i bisogni della popolazione. Gli autori difendono l'attuazione di strategie di CSR per ottenere il successo sostenibile delle PMI.

Classificazione JEL : M 40 - Contabilità
PAROLE CHIAVE: Contabilità; Responsabilità Sociale; Performance finanziaria; Acqua; Portogallo.

Abstract

Small and medium enterprises (SMEs) represent the largest driving force of European development. SMEs have an important role in the Portuguese economy and it is relevant the research of SME in the water industry, given the challenges that this type of industry currently faces, at productivity level, growth and innovation applied, because they achieve lower results compared to larger companies, usually caused by legal obstacles, financial, administrative and bureaucratic, with the negative effects of the crisis, which led to the overall reduction of the total demand for their products and services, followed by worsening conditions of payment by customers and the lack of working capital. Methodologically was carried out the literature review, concepts, laws and regulations that contextualizes the Corporate Social Responsibility (CSR) and water industry. At second level, it will be developed an empirical analysis through a content analysis of SME as case studies that requires deeply understanding of them. Indeed, the Portuguese economy relies on the management of this strategic product (water), because its scarcity. However, this research can be used as a source for research on sustainability and projection SME in future, because this business will be a strategic industry, due to opposite relation between the rarity and the value of drinking water on the planet, as well as, the increase needs of the population. The authors defend the implementation of CSR strategies to get sustainable success of SME.

JEL Classification: M 40 - Accounting
KEY WORDS: Accounting; Social Responsibility; Financial Performance; Water; Portugal.

1. INTRODUCTION

Small and medium enterprises (SME) play a central role in the Portuguese economy and constitute a major source of entrepreneurial skills, innovation and employment. Thus, there is a growing need to study their behaviour, because are few studies about this type of businesses. According to Eurostat data, SME in Portugal represent 99.9% of the national business market, account for 82% of employment and 67.8% of national production. However, in recent years the Portuguese economy went through a period of sharp contraction, Portugal was one of the European Union countries most affected by the financial crisis, so with the diminution of the internal consumption, the companies saw their production decrease, consequently they had to find new sustainability strategies, through the search of new markets, and the internationalization of its products.

In this perspective, it is crucial to develop a positive environment for entrepreneurs to make possible the creation and development of SME. Portuguese SME are more than one million, so, the country's economic recovery depend the growth in turnover and profitability improvements of these companies. These challenges should concern managers, entrepreneurs and politicians because if each SME create a job, the unemployment disappears in Portugal (Proença, 2013). In this new business environment, SME are being exposed to increased pressures, in the water industry in particular, increased the requirements of innovation, quality and flexibility, because with the severe economic crisis, some patterns of consumption change, since increased the tap water consumption, and is a growing interest of municipalities in promoting tap water consumption as an alternative to bottled water which opened the door to a new battle in the price, quality and the environment.

One factor that has also led to obvious changes to the water industry, was the growing economic power of the market of the big companies in the retail industry, since the increase of the spaces on the shelves, with private label products at low cost, who allowed over the years a quick growth of purchasing of these products, mainly for the people who don't value product differentiation. In nowadays, the retailers control shelf space, promoting their own brands while the manufactures have to purchase the space in shelves, the advertising and the promotions. The beverage prices grew on average less in retail industry than in traditional shops, but this effort was mostly supported by producers, so we can get into a cycle in which advantages microeconomic, with low prices for consumers, can lead to serious macroeconomic consequences with closing of companies and unemployment.

In this context, the Portuguese economy is established on SME and these companies take part of the local community; their success is associated to the capability to get legitimacy and agreement among the local stakeholders, like customers, consumers, suppliers, employees, competitors, financial institutions, public authorities, community, among others (Abreu et al., 2005). In this context, there is the need of the SME of the water industry, implementing business strategies based in the principles of Corporate Social Responsibility (CSR) that answer to the complexity of the business, to the immense current challenges of the world, as the lack of drinking water, currently considered one of the great themes of local socio-economic agenda.

The water companies are facing, currently, challenges, because, the social responsibility must be a regular concern in the development of their economic activity, increasing business competitiveness and achieving the collective well-being and, on the other hand, face severe constraints of water as resource, which is scarce for the endless needs. In this perspective, it's clear that the bottled water market is very competitive, so, given the weight that SME have in the Portuguese economy and the changes that the market of bottled water industry suffered with the financial crisis in Portugal, it was decided to study the SME of water industry in Portugal. Furthermore, firms start to manage their strategies, with intention or unintentionally, to answer to stakeholders needs. These stakeholders affect and are affected by the actions of the firm, in general, and the water industry, in particular. In fact, the scientific evolution of concepts was expanded to new stakeholder's relations and new models of business and, based on this definition; these motivations increase the financial importance and economic relevance of water industry all over the world.

This research aims analyse the relationship between the corporate social responsibility and firms' financial performance, in a period from January 2003 to December 2013 with focus on the companies of water industry in Portugal. For this reason, intending up measuring, on the one hand, the existence of a relationship between the performance economic, financial and social performance and, second, the casual relationship between those financial variables and increasing social performance leads to a improved economic and financial performance or vice versa. Thus, it was first analyze the financial performance of small businesses in the bottled water industry to assess the impact of these companies on the market of bottled water industry, because like other sectors of industry, most of the companies have small size.

Methodologically, this research focuses, on the one hand, in the literature review to contextualize the SME and the Corporate Social Responsibility (CSR), in general, and the Corporate Social Responsibility Management System (CSRMS), in particular, based in the international standards. On the other hand, it promotes the investigation the Water Industry, in the last ten years, which is rarely investigated. The research is supported on the International Organization for Standardization (ISO) 26000: 2010 - Guidance on social responsibility (ISO, 2010) and the Social Accountability International (SAI) - SA 8000: 2008 - Social Accountability 8000 (SAI, 2008) to analysed the corporate social responsibility framework, as well as, the International Accounting Standards to analysed the financial performance and corporate governance framework of firms.

The structure of the research is organized as follows. Section 2 presents a literature review of SME conditions and the international and national standards of CSR. Section 3 characterizes the market of Portuguese water, and the financial performance of Portuguese SME of the bottled water industry, in a period from January 2003 to December 2013. Section 4 presents the research method. Section 5 presents the results and section 6 the conclusions.

2. LITERATURE REVIEW
2.1. SME
In the 60s, were the large companies that contributed to the economic development of a country, whose strategies were based on standardization, mass production, focusing on cost reduction and economies of scale. Currently, it highlights the importance of SME because of the role they play in the economy of a country. The table 1 represents the estimates for 2013 prepared by DIWEcon, based on figures for 2008 to 2011 from the SBS database of companies (Eurostat).

Table 1: Distribution of SME in Portugal

Company Category	Number of companies			Number of employees			Increased value		
	Portugal		UE-28	Portugal		UE-28	Portugal		UE-28
	Number	Share	Share	Number	Share	Share	M€	Share	Share
Microenterprises	739 555	95.4%	92.4%	1 230 990	42.8%	29.1%	15	22.4%	21.6%
Small	30 732	4.0%	6.4%	588 424	20.4%	20.6%	15	22.6%	18.2%
Medium-sized	4 547	0.6%	1.0%	444 610	15.4%	17.2%	14	21.6%	18.3%
SME	**774 834**	**99.9%**	**99.8%**	**2 264 024**	**78.7%**	**66.9%**	**44**	**66.5%**	**58.1%**
Large Companies	722	0.1%	0.2%	613 790	21.3%	33.1%	22	33.5%	41.9%
Total	775 556	100.0%	100.0%	2 877 814	100.0%	100.0%	66	100.0%	100.0%

Source: EC (2014)

In Portugal, this type of business is an added value similarly to other Member States of the European Union (EU), they represent 82% of employment and 66.5% of value added, rather higher percentages than the EU average. In turn, micro-enterprises make up the majority of companies in Portugal: 95.4% of the total, representing a weight of three percentage points above the EU average, rise more than 40% of private sector jobs (EC, 2014).

The backbone of any economy (Altman & Sabato, 2005; Quirós & Montero, 2005), SME have suffered a great weakening since 2008, the year that marks the fuse of the financial crisis in Portugal, where registers the first major decrease in the number of companies and number of employees in companies with fewer than 50 employees (INE, 2010). The value-added, and the total number of SME it also decreased, but this reduction was much smaller (EC, 2014). As can be seen, by evolutionary trend in Figure 1 and 2, in which the number of SME in Portugal tends to decrease as compared to other EU member states, as well as, employment.

Figure 1: Number of SME, 2008 a 2015	Figure 2: Employment on SME, 2008 a 2015
Source: EC (2014)	
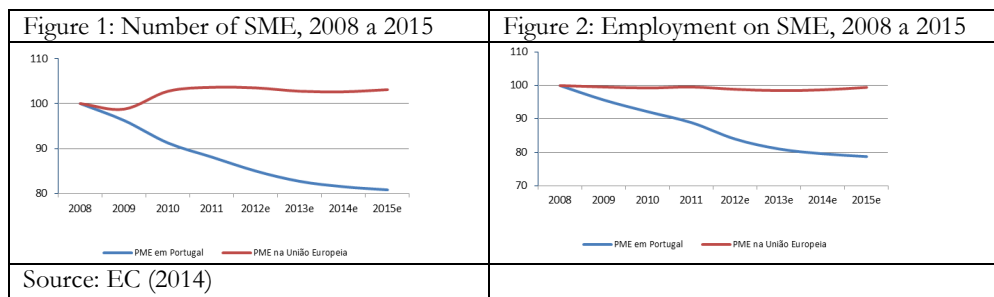
In addition, Portugal was hit hard by the economic crisis and the public debt, so the negative growth trend of smaller firms is since then, are the result of a political and economic austerity measures imposed by national and international institutions, creating a strong dynamic contraction of the productive business sector (Silva, 2014). Portuguese companies ensure much of the financing of its business activities through borrowing makes them particularly vulnerable to the markets, especially the credit (OECD, 2013). The difficulty they have to resort the capital markets for the acquisition of capital, makes them dependent on the funding of financial institutions and, therefore, vulnerable to credit rationing.

According to the EU, there are some 20 million micro and SME in the Economic Area. They are a main resource of jobs and a challenge for competitiveness. Their capability to recognize new requests of both end-consumers and industrial operators, their potential for absorbing new

technologies, and their involvement to apprenticeship, vocational training and local development, govern future advances in productivity of the entire European Union and its skill to achieve the objectives set at the Lisbon European Council. Promoting the development of enterprise policies, of the specific needs and skills of these categories of enterprise is a question of major importance for the EU Commission (EC, 2003). Dannreuther (2007) states the European economy is much more dependent on SMEs than, for example, United States (US) economy or even Japan's economy.

In this context, SME and entrepreneurs play a significant position in the entire economies and are the key generators of employment and profits, and drivers of innovation and growth. In the OECD area, SME employ more than half of the labour force in the private sector. In the European Union, they account for over 99 % of all enterprises. Furthermore, 91 % of these enterprises are micro-firms with less than 10 workers. Given their importance in all economies, they are essential for the economic recovery and a major focus of EU policy (OCDE, 2009).

The contribution of Organization of Economic Co-Operation and Devolvement (OCDE) is extremely relevant, for the development of these companies, in June 2004; Financing Innovative SME in a Global Economy was one of the themes addressed by the 2nd OECD SME Ministerial Meeting in Istanbul. In March 2006, the OECD Global Conference on Better Financing for Entrepreneurship and SME Growth, held in Brasilia, assessed the SME financing gap. Further work and research on Financing Innovative and High-Growth SME was carried out in 2007-2008. In October 2008 the 34th Session of WPSMEE engaged in a initial switch of views on the impact of the global crisis on SME and entrepreneurship financing and discussed strategies so far adopted by governments to deal with the problem (OCDE, 2009).

Most of the existing literature shows that SME are relevant to macroeconomic expansion and competitiveness, these small businesses create more jobs than large companies and start-ups leads to a higher degree of competition, leading to a positive effect on employment growth, but its survival is more difficult and critical (Burns, 2001), according to Analoui & Karami (2003) a major cause for the failure is that SME don't focus on customer needs and the market. Jimmy et al. (2002) reported SME have been considered as a significant component of economic strategy for creating jobs and wealth, strengthening the importance of their survival.Thus, the Governments recognize survive and grow of SME need specific measures and programs. However, SME were severely affected by the global crisis. According to OECD (2009), these

companies are now more vulnerable due to: i) it is difficult to downsizing because they are already small businesses; ii) individually are less diversified in their activities; iii) have a weaker financial structure; iv) have a low or non-existent rating; v) are heavily dependent on credit; vi) have less financing options.

SME have special characteristics: small size; greater likelihood of bankruptcy; greater ability to change the nature of their assets; and less transparency in the information provided to creditors about company's specific characteristics. Although it's small size, SME may develop certain attributes relation to big companies as mobility capital, mobility information (Pacitto and Torjman, 1999), local employment and rate of creation of new companies (Aydalot, 1988). Once favoured, these attributes contribute to improve the level of economic growth region, which in turn helps to strengthen those attributes. This process is in call basis "local value chain" in which employment, innovation and growth is influence each other through reciprocal development opportunities (Blakely, 1994).

By other hand, the economic globalization have created much more demanding competitive conditions in the markets, where rapid response and sustained improvement in quality of products and services are key competitive factors involving the need for qualified human resources and stimulating the ability to learn companies and their organizations. Business opportunities for SME should focus, not only on the production function, but also in the applications of their products and services (Bollard, 1983; Rothwell, 1984). The structural flexibility of SME, combined with his entrepreneurial skills, allows them to take advantage of the medium changes to create innovation and competitiveness. Julien (1995) makes this argument in a context that bigger enterprises, despite its larger capacity features were less responsive to control market uncertainty over the past 20 years.

In this perspective, the competitive market environment in which SME operate affects the chances of survival (Storey & Cressy, 1995), SME are mainly influenced by three key factors: the market, flexibility and innovation (Levy & Powell, 2005). The market uncertainty is high for most SME, as only have a small market share, depend on one or two large customers and naturally have a low impact on pricing and therefore, tend SME are price-takers. For most SME, the fact that selling to a single large customer creates difficulties to the extent that this customer set the price and quantity, making it a very high risk because when the market goes into recession, leading SME exercise very low

margins which causes difficulties in raising sufficient funds to acquire new features which reduces the tendency to bet on new strategies (Roper, 1999).

A survey of 248 SME realized in Portugal at the year of 2008 at Lisbon University Institute (ISCTE), in partnership with the Agency for Competitiveness and Innovation (IAPMEI), showed that the main problems the Portuguese SME facing were, charges social and tax, the decrease in profit and sales volume, strong variations in raw material prices, lack of payment from customers, rigidity labour law, cash flow problems, costs of employees, loss or absence of large customers, bureaucracy, hand labour recruiting qualified and among others the difficulties in obtaining financing (ISCTE, 2008). More than 70% of respondents said that the company felt the impact of globalization, particularly in terms of increased foreign competition and opening foreign export markets, and 52% of respondents consider that one of the most important supports for the development SME is to hold periodic seminars for leaders (ISCTE, 2008). In turn, the results of a survey conducted by the Commission European in 2008 identified the main problems of the European SME were: load administrative and regulatory; access to finance and taxation; problems also common to the Portuguese SME (Fonseca, 2011).

Another study conducted by Oxford Economics (2013), included the Portuguese SME and another 20 countries worldwide, aimed to understand how the small and medium enterprises are competing in an increasingly global market and how we are transforming their business, this study showed the Portuguese SME need to quickly start processing of their business, because, 80% of Portuguese SME reported not having any business transformation initiative started, in progress or recently completed, while two-thirds of companies surveyed say they are in transformation of their business process. The research also concluded shifting customer expectations and demand are the greatest issues affecting SME (56% vs.32%globally). Second and third concerns are greater supply chain complexity (37%) and growth opportunities in regional or wider markets (29%), strengthening customer relationships is cited by a very large majority (84%) of Portuguese SME as a strategic initiative to drive growth, followed by innovation, cost reduction, and efficiencies (75%); 76% report that competition from foreign firms has increased substantially in the last two years.

In addition, Santos *et all* (2015) identify the main determinants of business failure in Portugal, based on a sample of small and medium-sized enterprises, by the analysis of various ratios of financial and economic nature, through the estimation of a model that evaluates corporate performance. The main results

of this research showed that the determinants of mortality of small and medium-sized Portuguese companies are debt and performance management.

2.1. CSR in SME

Most studies on CSR are carried out in large enterprises. However, business community globally is mainly made up of SME, whose central challenge is to survive (Torugsa et al, 2012; Sen & Cowley, 2013). For that reason it's important to study this issue, since SME tend to have access to few resources (Del Baldo, 2012). It's generally agreed that one of the main results of the implementation of CSR is increasing differentiation from the competition (Marín et al, 2012; Torugsa et al, 2013; Gupta et al, 2013; Vázquez-Carrasco & López-Pérez, 2013) and can this demarcation represent the difference between success and failure of SME. Moreover, given the closeness and involvement with the local community, can enable a greater commitment and success of CSR practices (Del Baldo, 2012).

Portugal like Europe, according to literature review, have its economy heavily conditioned by the performance of SME, given their importance, one of the objectives set by the European Commission Green Paper was to disseminate and support the implementation of CSR policies in SME, by adopting socially responsible practices. Management based on the principles of social responsibility contributes to the success of SME in particular; it can bring benefits in terms of maintenance and recruitment, increased motivation and loyalty of employees, greater satisfaction, and customer loyalty and reduced costs by adopting sustainable production. In terms of the knowledge economy, may play increasingly a source of motivating innovation and help access to information sharing and internationalization, key factors in the sustainability of the business.

CSR isn't just for large companies, SME may withdraw socially responsible practices numerous advantages. But the fact that they have specific characteristics, as it relates to their size, turnover, number of employees, the business impact and model owned business, along with the conditions of access to information and more advanced methods management, hinder the establishment of business contacts and subsequently access to markets. The CSR consists of the actions developed by companies for the benefit of its stakeholders and society in general, in times of crisis: (EU, 2011:3): *"should be understood as an opportunity for strategy, development and growth, risk management, cost reduction, access to capital, customer relations, human resources management and innovation capacity."*

In 2011, a study published in the Social Responsibility Journal (Santos, 2011), demonstrate that CSR practices in Portuguese SME takes on an informal, non-structured character, but it has been integrated into the regular management of such business. Besides, CSR at SME is basically internally concentrated and results from attention to the possible profits to the business from improvements in eco-efficiency, a better social environment or a greater profile in the local community. The emphasis is on the adoption of simple, easily applicable and cheap measures and normally with specific results exemplifying how SME and CSR is positioned on the limit between entrepreneurialism and business administration and that of business citizenship (Santos, 2011).

According to Santos (2006), about the results of the survey of CSR practices in Portuguese SME, there is a clear perception at the level of SME that CSR has a direct economic value, being an important competitive factor. Consecutively, other studies show that Portugal has been incorporating social responsibility of a crescent shape, in addition to integration in public policies; also the private sector and civil society have played an important role in the evolution of the concept of social responsibility (Freitas, 2014). On the other hand, Barbosa (2012) concluded that although CSR be a concern of many companies it appears that there is little information on the perception that entrepreneurs have the positive benefits of CSR activities and how to increase business involvement in practices CSR. In turn Matias (2014) developed a study to assess whether the implementation of CSR practices lead to a better performance of the company, trough a questionnaire sent to managers of several Portuguese SME. The results of this research showed that CSR performance and practices are effectively linked and aren't unreasonable to invest in CSR as a way of developing competitiveness and achieve superior performance in companies, results in line with previous studies (Marín et al, 2012; Cheng et al, 2014).

On other hand, several studies, theoretical and empirical, have been developed in order to assess whether there is a relationship between social responsibility and financial performance. López, Garcia and Rodriguez (2007) found that the financial performance was affected by the adoption of corporate social responsibility practices, they analyzed whether there was significant difference between the performance indicators of companies that adopted social responsibility practices and companies that did not adopt. In turn, Bertagnolli, Ott and Damacena (2006) determined the influence of social and environmental investments in business performance, using eleven internal social indicators, ten external social indicators and two environmental indicators as independent variables and the net sales and operating income as

dependent variables and they concluded that there was a positive relationship between social indicators and economic performance of companies. In 2011, Machado *et al* (2011) based on the stakeholder theory, verified if the social responsibility caused impact on the financial performance of companies, the results showed there is a positive impact of social responsibility in corporate financial performance, as respect to internal and external indicators.

The several studies, allow to conclude the sustainability strategy are important to economic success, social and environmental development of the society in which companies are inserted, without which it wouldn't be possible to achieve the same its efficiency and cost-effectiveness (David *et al.,* 2014). Consequently, it can be considered that one of the functions of CSR is to contribute to minimizing the social consequences of the current crisis of the economy in order to collaborate in building a stronger society; it can develop into a sustainable economic system. In Portugal, although several companies were using CSR practices in a casual way, the CSR systematic practices it only begun after the celebration of international agreements, and more specifically the European Lisbon Conference of 2000. Researches done in Portuguese context also refer to lack of information to study Portuguese reality, and also lack of formulas to CSR implementation (Afonso, 2012).

In this context, in Portugal, there is increasingly greater adherence by companies to CSR (Roque & Cortez, 2006). Even though, the growing concern and evolution registered, the formal implementation and the involvement of companies in CSR in Portugal, when compared to other countries of the European Union, it is still low (Ramos et al, 2013), this membership it's mostly associated with the visibility that the company has on the market, it's also noted an increasing concerns and developments in various areas such as Health and Safety at Work and Environment, this evolution is moved internally or motivated by external pressures given the presence of Portugal in the International Labor Organization and European Union, among others, which requires all companies to move towards compliance and to accomplish their legal responsibilities (Matias, 2014).

At the institutional level, CSR appears discussed at the international and national level. Internationally, there is the EU through the Green Paper sought to promote and disseminate that companies and institutions to adopt a social responsibility strategy, meeting the strategic goal outlined in the Lisbon Strategy of 2000 (EU, 2000) specifically: *"Becoming based economy more competitive and dynamic knowledge in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"*

Also OECD contributed to the debate on CSR, presenting the principles of Corporate Governance (OECD, 1999) and the guidelines for multinational enterprises - Guidelines for multinational enterprises (OECD, 2000). Other organizations also played a key role, namely: the International Organization for Standardization (ISO), by publishing various standards systems; the Global Reporting Initiative (GRI), which has developed guidelines for the preparation of the sustainability report; the Institute of Social and Ethical Accountability (ISEA) has published standards on ethics certification; the ETHOS Institute, whose mission is to mobilize, sensitize and help companies manage their socially responsible business; and the United Nations (UN).

Nationally, the Economic and Social Council (ECS, 2003: 26) promote the publishing created by Law nº. 108/91, of 17 August (AR, 1991), economic and social, issued an opinion in 2003 on the initiative of responsibility in companies, where: *"build a database and a treatment system and dissemination of information with regard to best practice"*

Years later, the NP 4469-1: 2008 (IPQ, 2008a: 11), was a response to the needs experienced by companies in terms of defining a management system of social responsibility, specifying which: *"requirements of a social responsibility management system that enables an organization to develop and implement a policy, objectives and coherent actions, taking into account the legal, regulatory and other which the organization subscribes. It applies to aspects of social responsibility that the organization identifies as those who can control and those it can influence. "*

Donaldson & Preston (1995) classified CSR as a potential business case; these authors concluded that CSR activities can positively influence the financial performance of a company. This interaction was studied empirically by various authors (Aupperle et al. 1985; Waddock & Graves, 1997; Orlitzky et al., 2003; Orlitzky, 2005), in turn Luo & Bhattacharya (2006) argue that a positive relationship can be observed or negative between CSR and market value, depending on the company's capabilities. The increasingly detailed research of CSR suggests the relationship between policies adopted by the organizations and the position of those in the capital market (Heal, 2004).

3. THE RESEARCH CONTEXT

This research analyses the firms' financial performance of the small water industry in Portugal. So, it is important characterize the Portuguese market and the financial performance of Portuguese SME of the bottled water industry, in

a period from January 2003 to December 2013. The water industry is very relevant for the Portuguese economy; according to official data in 2012 the volume of natural mineral water industry businesses and spring waters was, approximately, M€208 according to table 2. The sector accounts for almost 2 percent of the whole food and beverage Portuguese industry, ensuring more than 10.000 jobs, as well as, those generated directly and indirectly downstream and upstream of the activity. A significant part of this job contributed to decrease regional asymmetries taking into consideration that is fixed in the interior regions of the country, since the bottling plants can't be relocated because they have to be located close to the springs PAIMW (2015).

Table 2: Economic Sector: Food and Water Industry

Categories	Volume of business
Natural and Spring Mineral Water	M€208
Food and Beverage Industry	M€11.544
Sector weight of natural and spring waters in the food and beverage industry	1,65%

Source: PAIMW (2015)

The bottling industry of natural mineral waters and spring waters have registered in the last two decades tremendous growth, which brings us closer to the values of per capita consumption of our community partners. According to figure 3 registers a value of around 100 litters per capita (DGEG, 2015).

Figure 3: Bottled Water Consumption per Capita in Portugal (Litters / inhabitant / year)
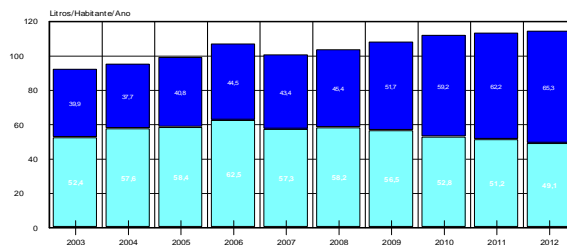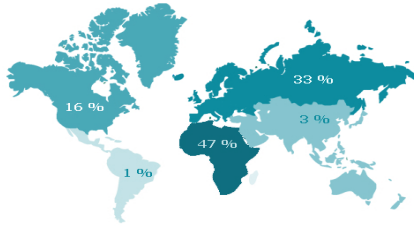

Source: DGEG (2012)

The bottled water industry contributes positively to the Portuguese trade balance in a range between 5% to 6% of production is exported to emerging markets throughout the world, the export volume of bottled water intended primarily to Portuguese-speaking African countries and countries where there are numerous emigrant communities. The trend, in recent years, has been a decrease in 2013 in litters of 7.1% and a growth of 3.6% in packaging. Despite

this decrease, in litters, exports in this industry are a reality and represented in 2013 approximately 5% of national production, which highlights the quality of our waters, when compared to the expression of the exports of other countries' waters. Spanish Companies exports only 2% of its production and French and Italian companies export, in relative terms, more than natural and Portuguese spring mineral water. The figure 4 shows the world map with the destination of exports of natural mineral waters and spring waters Portuguese.

Figure 4: World map with the destination of exports of Portuguese natural mineral and spring waters

Source: DGEG (2015)

The Portuguese association of industrial natural mineral waters and spring waters (PAIMW) statistics show, the last ten years a positive trend in sales of natural mineral waters and spring waters (domestic and exports) of about 6.2% by volume litters, with a stagnation in 2011 and a sharp negative trend in 2012. However, the years of 2013 and 2014, as can be seen in Figure 5, already show positive results.

Figure 5: Evolution of Sales of Bottled Water, 2003-2013
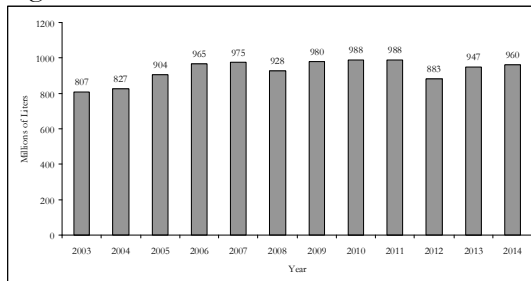
Source: PAIMW (2015)

In this context, the data shows that compared to the same period last year, the volume of sales of bottled water in April 2015, presents a positive result in 13.9% in litters and 20.8% in packaging. In turn, it shows a negative growth of 23.8% in litters and positive in 30.3% in packaging. However, the sales volume

of bottled water between January and April show a gain of 9.2% in litters and 11.7% in packaging, compared to the same period last year, and exports show a negative growth of 21.6% in litters and 12.8% in packaging (PAIMW, 2015).

4. RESEARCH METHOD

In this research, it was decided to carry out an empirical-analytic study, which, according to Martins (2002, 34), *"[...] are approaches that have in common the use of collection techniques, data processing and analysis markedly quantitative [...]. They have strong concerns about the causal relationship between variables.* Bastard and Gomes (1996: 58) state that: *"The evaluation of the companies should always be preceded by its economic analysis and financial."*

In fact, the financial analysis aids the process of valuation of companies, as it allows determine the value of business assets, through the correction of accounting data; assesses the company's ability to generate future profits; it provides information on the solvency, profitability, strengths and weaknesses of the company in the financial perspective (Cohen, 1996).

This article is part of a broader investigation that aimed to analyse the relationship between the corporate social responsibility and firms' financial performance, in a period from January 2003 to December 2013 with focus on the companies of water industry in Portugal. It was chosen a ten years period of analysis, because a longer period of analysis can provide more reliable information about financial performance, companies' commitment with CSR and also allows an evolution analysis of the adoption of CSR. To achieve the main goal, it was initial measured the financial performance of 14 small bottle water companies. According with the literature review the Portuguese SME are majority constituted for small business and have a large weight in the business Portuguese, so this study is focused in this type of business, for understand the financial performance of these companies in the market of water industry.

The sample used for this present study is made up of 14 small companies of Portuguese water industry identified in the table 4, of a total sample of 41 firms. From the initial sample were analysed 14 companies, over a period of ten years (2003-2013), using the ratios proposed in the literature by Cohen (1996), Damodaran (2002), Holthausen & Watt (2001), Kothari (2001) and Luehrman (2005). The financial analysis of data was collected in the database Balance Sheet Analysis Iberian (SABI), and the variables studied are: sales; credit period (days); collection period (days); cash flow (EUR); return on shareholders' funds; return on capital employed; return on total assets; profit

margin; operating profit per employee; economic profitability; financial profitability and level of indebtedness.

In this research we have adopted the recommendation by the European Commission no. 2003/361/CE in vigor since January 2005 that defines small and medium-sized enterprises as those with less than 250 employees and an annual turnover of less than 50 million euro. This recommendation was later included in Decree-Law 372/2007 of November 6 (table 3) by the Portuguese Government (Trigo, 2009).

Table 3: SME in Portugal

| Company category	Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Source: EC (2015)

According to appendix 1, most of the companies in study, have small size and they located at the centre region and they are characterized by the same type of market products, natural mineral water and spring water, carbonated water and soft drinks, whose distinction the product on the market is achieved through diversity of physical and chemical composition of natural mineral waters and spring due to great geological diversity of Portugal.

5. RESULTS

In this research, it was performed an economic analysis and financial small business of bottled water, to realize the impact that this type of plant units have in market industry, attending that this type of companies bottles a precious asset, increasingly scarce, whose business is increasingly influenced by the internationalization of economy, customers increasingly demanding and the market from the retail industry, who increasingly occupy shelf space and display prices aggressively lower and stronger distribution networks, the figures below presents the results obtained.

Figure 6: Sales (EUR), 2003-2013
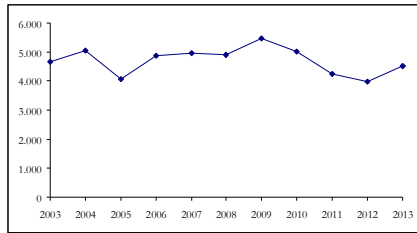
Source: Adapted from SABI (2015)

Table 6 shows that the sales of small companies are stable all over the years and had placed between 4 and M€ 6, which means they have a small height for the total volume of business, because in 2013 according to official data the volume of natural mineral water industry businesses and spring waters was approximately M€175, as such, although the largest number of bottled water companies being small, aren't the ones that contribute most to the total turnover.

Figure 7: Credit Period (days), 2003-2013	Figure 8: Collection Period (days), 2003-2013
Source: Adapted from SABI (2015)	
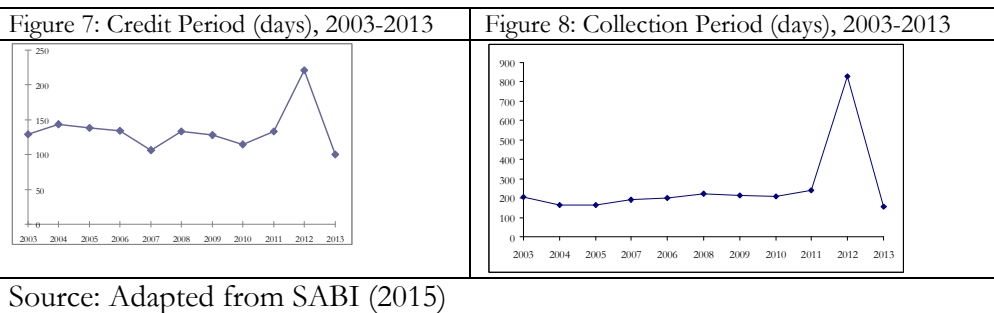
By other hand, the values of credit period swing all over the years, according to figure 7, although oscillate the value obtained in 2003 (129 days) are similar to the value 2013 (100 days), so the companies take much time to pay to their suppliers which highlights the liquidity problems of these companies and the fact that their own customers pay them late. The figure 8 confirms that this period (2003-2013) for small companies are almost stable for all over the years, with exception 2012, the value is very superior and well above average. Although the stability of the values, they are very higher, that means the clients of the companies take much time to pay, leading to net cash flow problems.

Figure 9: Cash Flow (EUR), 2003-2013
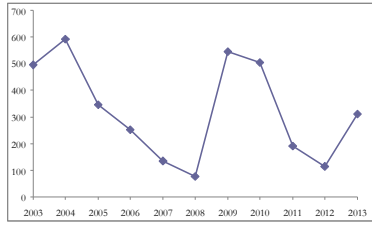
Source: Adapted from SABI (2015)

The cash flow refers the amount of cash received and disbursed by a company over a period of time; the Cash flow calculates the accumulated value between anticipated revenues and expenses during a certain period. According to the results obtained in figure 9, the values are very instable all over the years, which indicate that this type of industry must often solution to external financing, since the credit given by suppliers, and the time it takes customers to pay isn't enough to fully fund the operating cycle.

Figure 10: Return on Shareholders' Funds, 2003-2013	Figure 11: Return on Capital Employed, 2003-2013
Source: Adapted from SABI (2015)	

The profitability performance analysis of companies can be evaluated using the analysis of the indicators returns on shareholders' funds and return on capital employed. By analysing the figure 10, the values were negative between 2006 and mid-2009 and mid-year 2010 until mid-2012, which means in that period the companies didn't recover the net value of assets. By other hand, Figure 11 demonstrates the companies start recovery their capital starting mid-year 2008, with a significant decrease in 2011 and a recovery in 2013.

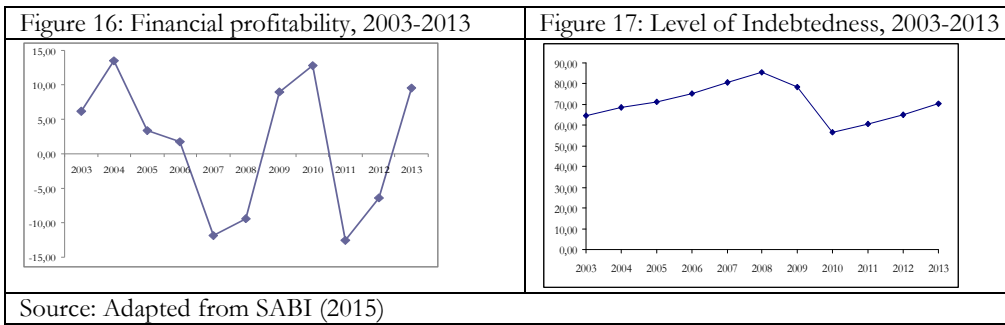| Figure 12: Return on Total Assets, 2003-2013	Figure 13: Profit Margin, 2003-2013
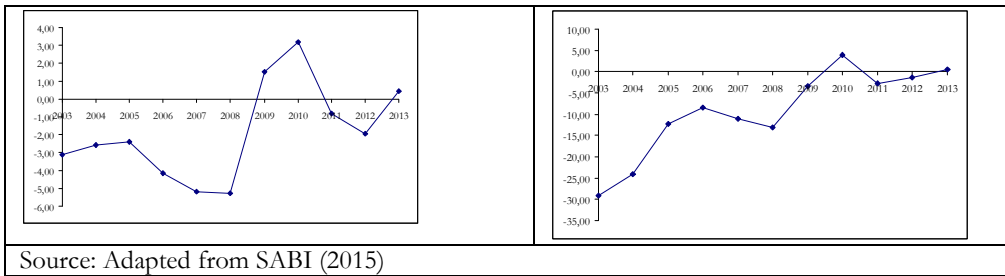
The indicators return on total assets and profit margin presented in figures 12 and 13, are also related with the profitability performance. On the hand, the figure 12 translates the sales, for every euro invested in terms of total capital. Indeed, the companies start recovery their capital starting mid-year 2008, with a significant decrease in 2011 and a recovery in 2013, according to the same conclusions the figure 11. On other hand, the figure 13 shows that companies didn't have profit margin all over the years with exception, the mid-year 2009 and 2010, coinciding with the same period that have achieved positive results with regard on return on total assets, return on shareholders' funds and return on capital employed.

Figure 14: Operating Profit per Employee, 2003-2013

Figure 15: Economic profitability, 2003-2013
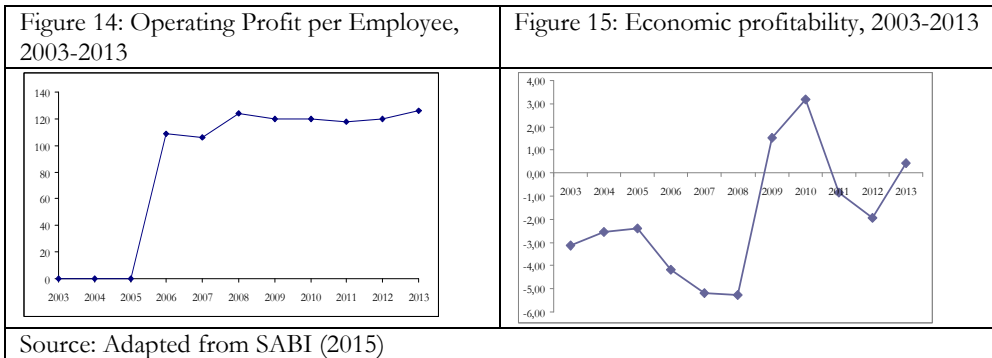
The ability of firms to efficiently use its resources to generate profit is crucial to your success, as such, it's essential to assess how companies effectively manage their resources by operating profit per employee, so the figure 14, presents the operating profit per employee (Th) of the small companies of bottle water between 2005 and 2013, since it wasn't possible to obtain data from previous years. The results show that companies for every €1,000 invested in the workforce company has a sales recovery exceeding €100.000. These values are due mainly to the fact the manufacturing process is significantly robotic, requiring little hand labour to produce their products. The ability of companies to generate results from sales of investments and capital

invested by the partners or shareholders, it can be analysed through the ratios of economic and financial profitability, presented in figures 14 and 15.

Figure 16: Financial profitability, 2003-2013	Figure 17: Level of Indebtedness, 2003-2013
Source: Adapted from SABI (2015)	

The results show the values are very swing all over the years; economically companies presented over the years negative results, having only achieved positive results from the 2009 year of beginning and early 2011. At financial level, the results of the figure 16 were more positive and there has been throughout this decade some periods with negative results, with increasing trend in 2013 similar to the results obtained in other indicators. At the level of indebtedness, the results in Figure 17 shows that the level of indebtedness of these companies is high, because as can be seen from the literature reviews these companies often turn to credit to finance their activities.

6. CONCLUSIONS

In contemporary society, the uncertainty and the risk management are dominant concerns in the business environment, as well as, in the management of public assets. Also, the increasing problems of water scarcity and drought clearly require a more sustainable approach to water resource management across Europe. This need is already reflected in water-related policy and legislation. The water is a general interest feature, so implementing technologies and practices that either conserves water or use it more efficiently plays a key role in the demand-side approach to water management, it's also important, the protection and sustainable management of this resource into other community policies, such as: environmental, agricultural, energy and among others, in which the rational use it's important, not only to contribute for sustainability of the water, but also the business of the companies.

In Portugal, natural mineral waters belong to the public domain of the State and are exploited under concession and spring waters and are also geological resources subject to demanding standards licensing and protection belong to

the private domain and are exploited in regime licensing. This industry is relevant to the country, because in 2013 the volume of natural mineral water industry businesses and spring waters was approximately M€175. This industry accounts for nearly 2% of the whole food and beverage Portuguese industry, ensuring more than 10.000 jobs, including those generated directly and indirectly and contributes to reduce regional asymmetries considering that is fixed in the interior regions of the country, since the filling stations can't be relocated because they have to be located near the springs.

This research shows that the financial crisis introduce a gap between SME and large companies, because of the successive decreases in the number of companies, the turnover level and reduction of the number of employees in the water industry. Also, it identifies the performance indicators, which recognize the main difficulties faced by the SME water industry, especially, in terms of financing its activities, medium-term receivables and the return of invested capital. The future development of this research will draw water market, because it allows the stakeholder to understand the origin of the water markets and the inherent value of the water as public good. At the same time, it will give an alarm raised by scientists in respect with the scarcity, because it was necessary to restrict it due to the lack of several countries and then the increase of the value of water.

The results not, financial difficulties given the current economic crisis, even though, the small bottled water companies have responded to impulses of markets, increasing the internationalization of its products for several markets in particular whose who required the development of targeted premium products for consumers who value the product differentiation, either in their natural characteristics or the package itself. In short, companies in study have a strong natural base of its productive process, benefiting from management of a strategic product (water), associated with the preservation of the environment, as well as, a social function related employment, quality of life and well-being of the population, because they are important to reduce the regional asymmetries considering that most of the companies are fixed in the interior regions of the country.

Small and medium-sized enterprises (SME) are essential to wealth and employment creation in every economy. However, they haven't available the same financial resources or the access to financial sources as the large companies. The data show that the main financial difficulties of small companies of bottled water are liquidity and cash problems, so they have to often resort to external financing, which in turn leads to that the level of debt

these companies are high, problems previously identified in the literature review. Through the results it was possible to conclude, although the largest number of bottled water companies being small, aren't the ones most contribute to the total turnover.

In a competitive market, the main variables that guide are price, product quality, availability and image to the consumer. In the case of the bottled water industry, the SME should be focused on product differentiation strategy as its raw material naturally presents a differentiation. The Portuguese economy can rely on the exploitation of a strategic product since its scarcity is economical condition for recovery. It is intended, exportation of these products to another countries, with scarcity of drinking water and have economic conditions to pay for them, are some solutions for the SME of bottle water industry overcome the crisis and combating market of large companies.

The financial crisis has led to society in general to demand greater interest of companies on issues related to CSR, the dissemination of information on social responsibility have gained more importance. The implementation and dissemination initiatives on social responsibility by companies will make these use a higher credibility, reputation in the market, better customer loyalty on the part of collaborated and greater confidence among its stakeholders.

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Appendix 1: Population: 41 Portuguese companies

Company	Marketed Products	Location	Dimension
Glaciar Indústria, S.A.	Spring waters and other bottled waters; carbonated waters; soft drinks	Center	Small
Refrige – Sociedade Industrial de Refrigerantes	Mineral waters and other bottled waters; carbonated waters; soft drinks and beer	South	Large
Nestlé Waters Portugal, S.A.	Mineral waters and other bottled waters; carbonated waters; soft drinks	South	Medium
Água de São Silvestre, S.A.		Center	Small
Conde Belo - Águas Belinhas		Center	---
Sociedade da Água de Monchique, S.A		South	Small
Águas de São José, Lda		South	Micro
Água do Fastio, Comércio e Engarrafamento de Águas Minerais, S.A.		North	Medium
Água de Porto Santo, Lda		Islands	---
Aguarela do Mundo – Águas de Nascente, S.A.		Center	Medium
Empresa de Águas de Sandim, Lda		North	---
Empresa das Águas do Alardo, Lda		Center	Small
Água do Marão, Lda		North	Small
AMN- Águas Minerais do Norte, Lda		North	---
Aquara – Produção Comercialização e Distribuição de Água, Lda		North	---
Arvoland – Unipessoal, Lda		North	---
Beiravicente, S.A		Center	Small
Águas Carvalhelhos, Lda	Mineral waters and other bottled waters; carbonated waters; soft drinks	North	Medium
DaNascente – Empresa de Águas de Mesa de Manteigas, S.A.		Center	Small
Etanor/Penha, S.A		North	Small
F.F.M. – Sociedade de Exploração e Comercialização de Águas de Mesa Lda		South	---
Jet Cooler – Águas e Cafés, S.A	Wholesale trade of soft drinks	South	Medium
J.P. Águas, S.A	Mineral and spring waters and other bottled waters; carbonated waters; soft drinks	Center	---
Sociedade da Água do Luso, S.A.		Center	Medium
Mineraqua Portugal- Exploração e Comercialização de Águas, Lda		South	Small
Momentos Célebres, Lda		Islands	---
Muralha d'Água - Águas de Nascente S.A.		Center	Small
Nascente Divina – Águas do Alardo, Lda		Center	Small
Ondapadrão – Enchimento e Comercialização de Água, Unipessoal, Lda		South	Micro
Outeirinho – Turismo e Indústria, S.A.		North	Medium
Águas das Caldas de Penacova, S.A		Center	Medium
Promineral – Produção de Águas Minerais, S.A.		Islands	Micro
Águas de São Cristóvão, Lda		Center	---
Salvato – Exploração de Águas de Nascente, Lda		North	Micro
SASEL – Sociedade de Águas da Serra da Estrela, S.A.		Center	Small
Serra das Águas Boas, Lda		Center	---
Empresa Central Serrana de Águas, S.A.		Center	Small
Sumol, Compal, S.A		Center	Large
Unicer Águas, S.A		North	Medium
Empresa de Águas do Vimeiro, S.A.		South	Medium
VMPS – Águas e Turismo		North	Large