

BRIDGING INSTITUTIONAL, CULTURAL, AND ENTREPRENEURIAL FORCES FOR SUSTAINABILITY: AN INTERDISCIPLINARY CASE STUDY OF SRI LANKAN APPAREL AND TEXTILE SMEs

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ABSTRACT

Sustainability is becoming increasingly important for small and medium-sized enterprises (SMEs), particularly in developing economies, where firms often operate with limited resources and institutional instability. While much of the existing research focuses on formal compliance and structured systems in large firms, far less is known about how SMEs embed sustainability informally, particularly in response to local crises and socio-cultural dynamics. This study investigates how Sri Lankan manufacturing SMEs adopt sustainability practices through relational and adaptive leadership in the face of institutional demands, economic constraints, and external shocks. Drawing on the Triple Bottom Line (TBL), institutional theory, and resilience leadership theory, the study explores how SME leaders in Sri Lanka respond to sustainability challenges not merely through systems and policies, but through flexible roles, moral commitments, and low-cost innovations. Using a qualitative multiple case study design, the research examines four certified SMEs in the Western Province. Data from interviews, observations, and document analysis were thematically analysed to uncover patterns in leadership behaviour and sustainable outcomes. The findings reveal that sustainability in these SMEs is shaped by role-sharing, ethical decision-making, and frugal innovation. Leadership responses to crises such as providing emotional support, modifying operations, and reusing waste materials emerged as central enablers of sustainability. A surprising insight was that relational trust and informal ethics were more influential than formal CSR programmes, especially in smaller firms. The study introduces a novel framework of “relational resilience,” which integrates three interrelated dimensions: (1) emotional support and trust-building that strengthen cohesion during crises, (2) ethical responsibility guiding decisions beyond compliance, and (3) operational flexibility enabling continuity under constraints. This shows how culturally embedded leadership can institutionalise sustainable practices without significant financial investment. This challenges dominant Western assumptions about sustainability drivers and contributes a grounded, Southern perspective. The results also have practical implications for policy and buyer engagement by highlighting the need to recognise and support low-cost, trust-based, and ethically grounded sustainability practices in SMEs operating under resource limitations.

Keywords: SMEs, Sustainability, Relational Leadership, Resilience, Sri Lanka

Introduction

Sustainability has become an urgent global concern, yet small and medium-sized enterprises (SMEs), especially in developing countries, often face challenges in adopting sustainable practices due to limited resources and infrastructure. In Sri Lanka, the apparel and textile sector is a vital contributor to national employment and exports, but it is also under increasing pressure to meet international social and environmental standards. Despite this, most studies on sustainability in the sector focus on large firms or examine sustainability from only one angle, such as environmental science or economics. This study addresses this gap by exploring how Sri Lankan apparel and textile SMEs adopt sustainability through an interdisciplinary approach. It draws on several key theoretical perspectives: the Triple Bottom Line (TBL) framework, which highlights the importance of economic, environmental, and social goals; institutional theory, which explains how rules, norms, and buyer pressures influence business behaviour; and leadership theories particularly ambidextrous and resilience leadership which describe how leaders balance daily demands with long-term improvements. The main aim of the study is to understand how different forces such as leadership, cultural values, institutional pressures, and crisis experiences shape sustainability practices in Sri Lankan SMEs. The study seeks to answer two key questions:

- (1) What factors support or limit sustainability in apparel and textile SMEs?
- (2) How do SME leaders integrate social, environmental, and economic goals under resource constraints and cultural expectations?

This research is significant as it brings together multiple disciplines to explain how sustainability emerges in SMEs operating in a resource-constrained, culturally embedded, and crisis-affected context. By focusing on leadership responses within Sri Lankan apparel and textile firms, the study offers new insights into how small firms adapt to both formal institutional demands and informal social responsibilities. The findings have practical importance for policy makers, SME support agencies, and international buyers who seek to engage with sustainable business practices in the Global South.

Methodology

This study adopted a qualitative multiple case study design to investigate how different forces shape sustainability practices in Sri Lankan SMEs. This approach was appropriate for examining how complex interactions between leadership, culture, institutions, and past crises unfold within actual organisational contexts. Four firms were purposively selected from the Western Province, which is home to a large number of apparel and textile manufacturers. The selection included two small-scale and two medium-scale enterprises, spanning both textile and apparel production. All firms held at least one sustainability-related certification such as ISO 9001, ISO 14001, or SA8000 ensuring that participants had some formal engagement with sustainable practices. Primary data were collected through 22 semi-structured interviews with owners, managers, and compliance staff between January and March 2025. The interviews explored how sustainability was understood, practiced, and adapted across different levels of the organisation. Interviews were supported by field observations, company records, and third-party audit documents. Data were analysed using thematic analysis. Codes were developed inductively and organised into second-order themes, which were then interpreted through an interdisciplinary lens drawing on the Triple Bottom Line, institutional theory, and leadership frameworks. Triangulation across data sources and respondent validation helped to strengthen the trustworthiness of the analysis.

Results and Discussion

The analysis revealed that sustainability in Sri Lankan apparel and textile SMEs is shaped by four interconnected drivers: cultural values, leadership orientation, institutional pressures, and past crisis experiences. Together, these forces influence how firms balance moral responsibilities with strategic decisions in order to achieve social, environmental, and economic goals. The first theme was moral

commitment and socially embedded leadership. Leaders across all four SMEs, especially in the smaller firms viewed employee welfare as a personal duty. Their approach extended well beyond regulatory compliance. Owners helped employees access healthcare, supported children's education, and offered financial aid during family emergencies. These actions were rooted in longstanding cultural and ethical norms. For example, one owner explained, *"These are our people. If we don't stand for them, who will?"* This kind of value-based leadership fostered high levels of loyalty and social cohesion, which proved critical during periods of economic stress.

The second theme involved ambidextrous leadership in innovation under constraint. While large investments were often unaffordable, medium-scale firms demonstrated a capacity for small-scale innovation that aligned with both environmental and buyer expectations. Examples included the introduction of recyclable packaging, fabric waste reuse, and gradual machine upgrades. These innovations emerged not from external pressure alone but from the proactive stance of leadership. One firm introduced a new line of circular products using leftover materials, which was both cost-saving and marketable. As one owner stated, *"We cannot afford big changes, but we are always finding little ways to be smarter and greener."* This reflects ambidextrous leadership balancing exploitation of current systems with exploration of sustainable alternatives.

The third theme focused on learning from crises to build resilience. All firms had experienced disruption from the COVID-19 pandemic and the 2022 economic crisis. In response, leaders had implemented adaptive strategies such as cross-training workers, shortening supply chains, and decentralising procurement. These adjustments were not temporary fixes but became embedded in daily operations. A compliance officer noted, *"After the crisis, we looked again at everything how we train, who we depend on, how to stay running even if something fails."* These changes increased operational flexibility and reduced vulnerability to future shocks, demonstrating characteristics of resilience leadership.

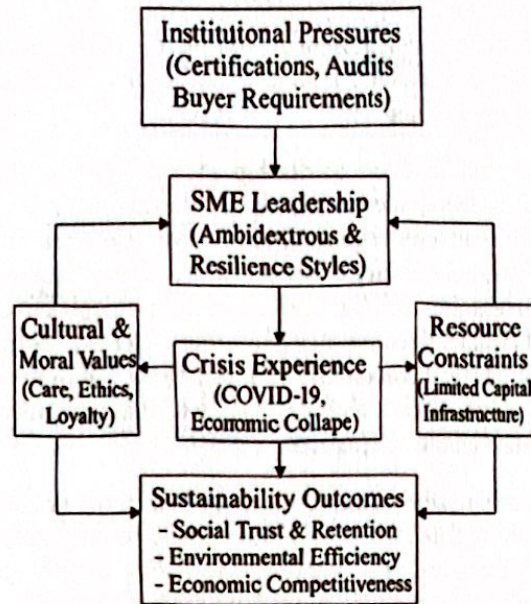
The fourth theme was building legitimacy through sustainability signals. All firms actively participated in external audits, local CSR events, and environmental initiatives. While some of these efforts were required for compliance, many were also symbolic gestures to gain trust and visibility. Smaller firms, lacking resources for large-scale environmental projects, often relied on community engagement and worker well-being to signal their values to buyers and stakeholders. These symbolic efforts supported legitimacy in the eyes of both global supply chain actors and local communities. For instance, a textile SME had hosted monthly clean-up events in its village and received positive media coverage, which in turn improved its buyer credibility. Together, these findings demonstrate that sustainability is not externally imposed or passively adopted, it is actively shaped by leaders navigating local realities. Table 1 presents the five interdisciplinary drivers, the associated leadership responses, and observed outcomes. These findings are summarised in Table 1.

Table 1: Interdisciplinary Drivers of Sustainability in Sri Lankan SMEs

Interdisciplinary Factor	Leadership Response	Sustainability Outcome
Cultural and Moral Values	Employee care, community support	Long-term retention, social trust
Institutional Pressure	Certifications, audits, buyer compliance	Process upgrades, legitimacy
Resource Constraints	Incremental innovation, reuse, local sourcing	Circularity, energy efficiency
Crisis Experience	Role flexibility, local supply adaptation	Operational resilience
Leadership Orientation	Ambidextrous and resilience strategies	Sustainable competitiveness

To better understand how these themes interact, the following figure shows a conceptual model based on the findings.

Figure 1: Interdisciplinary Model of SME Sustainability in Sri Lanka



This model shows how sustainability in SMEs emerges from the interaction between internal leadership and external influences. Cultural values, institutional rules, crisis events, and limited resources all shape decisions. Leadership sits at the centre, interpreting and responding to these pressures. The model also includes feedback loops, as firms learn from past experiences and adjust their strategies for future sustainability.

A key and surprising finding was that social sustainability was most effectively driven not by formal systems, but by deeply rooted moral values and informal leadership actions. Particularly in smaller firms, practices such as emotional care, family support, and loyalty-building were more influential than formal CSR programmes. This highlights a significant departure from Western models of sustainability, which often focus on formal metrics and systems. In this context, culturally embedded, relational leadership proved to be a powerful enabler of sustainability, especially under financial pressure. Another unexpected insight was that crises served as turning points, not only for survival but for institutionalising long-term sustainability practices. While previous literature often describes SMEs as vulnerable during crises, the study found that Sri Lankan SME leaders used these moments to embed flexible roles, local partnerships, and cost-saving innovations. Rather than causing setbacks, crises in this study triggered proactive sustainability reforms. Finally, this research offers a novel interdisciplinary model that connects leadership behaviour, institutional logic, cultural context, and learning from crisis within a single SME framework. The originality lies in showing how informal, value-based practices can lead to credible and resilient sustainability outcomes without the need for heavy investment. These findings challenge the assumption that structured systems and external funding are the only paths to sustainable development in SMEs.

Conclusions

This study shows that Sri Lankan apparel and textile SMEs do not follow a one-size-fits-all model of sustainability. Instead, their practices are shaped by a mix of leadership styles, moral and cultural values, institutional demands, and crisis-driven learning. Even with limited resources, SMEs find creative and meaningful ways to support environmental, social, and economic goals. Leaders play a central role by making ethical choices, adopting small innovations, and guiding their teams through uncertainty. The research makes four key contributions. First, it offers a new interdisciplinary model to understand SME

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sustainability in a developing country. Second, it highlights the importance of leadership styles especially ambidextrous and resilience leadership—in adapting to constraints. Third, it shows how moral and cultural values can support social sustainability without relying on formal systems. Fourth, it presents evidence that crises can lead to positive change and learning in SMEs. However, the study has limitations. It includes only four firms from one province in Sri Lanka. Future studies should include more firms from different regions or industries and use longitudinal methods to track change over time. Still, the findings have important implications for policy and practice. Support programmes for SMEs should consider both formal and informal approaches to sustainability. Buyers and donors should also recognise and value the culturally grounded, low-cost practices of SMEs in the Global South.

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