

The role of environmental incentives in greening the small and medium-sized enterprises: a developing economy perspective

Association
between EIs,
GR and EP

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Abstract

Purpose – The utilisation of market-based approaches (MBAs) than command-control approaches (CCAs) is still at the embryonic stage to stimulate the green behaviour of small and medium-sized enterprises (SMEs) in developing economies. The study aims to elucidate the association between environmental incentives (EIs), green responsiveness (GR) and environmental performance (EP).

Design/methodology/approach – A quantitative dominant research design is adopted with qualitative support. The study model is developed by integrating legitimacy theory (LT) and the natural resource-based view (NRBV). The cross-sectional data were gathered from the upper echelon of 395 SMEs in Sri Lanka, and 10 subsequent interviews were conducted. The partial least squares approach of structural equation modelling (PLS-SEM) was used to evaluate the hypothesised relationships.

Findings – The results found evidence to demonstrate that EIs positively link with GR and EP and GR mediates this association. Further, the study revealed that although MBAs are established, the SME sector is less aware of EIs such as tax concessions, tax reliefs, low interest, soft loans and discounts on eco-materials.

Practical implications – The results provide valuable insights to enhance environmental sustainability. The owners of SMEs should strategically use environmental inducements to overcome resource poverty to engage in green practices. The regulators and policymakers should develop the incentive policies and provide the mechanisms to disseminate the required skills and technologies to SMEs.

Originality/value – According to the authors' best knowledge, this is one of the pioneering empirical studies on EIs, GR and EP with mediating effects in Sri Lanka.

Keywords Environmental incentives, Green responsiveness, Small and medium-sized enterprises, Developing economy

Paper type Research paper

Introduction

Environmental degradation and the role of business have become a corporate buzzword in the contemporary business environment, as it has a strong influence on sustainable economic development, human populations and ecosystems (Adomako *et al.*, 2021). Given the evidence that the going green concept is a vital part of sustainable development of both developed and developing economies, a growing interest in academia on corporate environmental contribution in developed economies is noted but relatively less attention on developing economies (Baah *et al.*, 2020a; Tian and Lin, 2019; Yacob *et al.*, 2019). However, ecological challenges and policies of developed countries are substantially diverse from the developing countries in terms of the poverty level, culture, wealth of resources and capacity (Singjai *et al.*, 2018). The environmental literature in developing economies often explores how CCAs change corporate environmental behaviour and outcomes (Gunarathne *et al.*, 2020) rather than MBAs. MBAs provided high



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