



## Motives Behind the Adoption of Environmental Practices by SMEs Under a Social System Perspective: A Mini Review

\*Dangalla.D.D.Y. T

Faculty of Agriculture and Plantation Management, Wayamba University of Sri Lanka

[\\*yemodyatharushi@gmail.com](mailto:yemodyatharushi@gmail.com)

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**Abstract**— The adoption of environmental practices by small and medium-sized enterprises (SMEs) is influenced by multiple social system factors, including market forces, judicial enforcement, and government policies. This paper reviews existing literature on SMEs' environmental practices, categorizing their motives into market-driven, legal compliance, and government-support mechanisms. Additionally, this study identifies key barriers that hinder sustainability efforts and proposes future research directions. This review highlights that while regulatory enforcement and economic incentives serve as key motivators, social system factors—such as stakeholder expectations, peer influence, and cultural values—play a crucial but often overlooked role in sustainability adoption.

**Index Terms**— Environmental Practices, Judicial Enforcement in Environmental Compliance, Market-Driven Sustainability, and Regulatory Compliance.

### 1. Introduction

Sustainability has become a pressing issue for businesses worldwide, with SMEs playing a critical role in shaping environmental responsibility. Unlike large corporations, SMEs face unique challenges, such as financial limitations and lack of expertise in sustainability management. Their decision to adopt environmental practices is influenced by external pressures from markets (consumer demand, supply chain expectations)[1], the judiciary (compliance with legal frameworks)[2], and government incentives (subsidies, grants, and policies)[3].

Despite growing attention to sustainability, there remains a gap in understanding how social system factors collectively drive SMEs toward sustainable business models. This review aims to explore the interplay of market mechanisms, judiciary enforcement, and government policies in motivating SMEs to adopt environmental Practices.

Small and Medium Enterprises (SMEs) play a crucial role in the global economy, contributing significantly to employment, innovation, and regional development. However, their environmental

impact cannot be overlooked, as they collectively account for a substantial portion of industrial pollution and resource consumption. While large corporations are often at the forefront of sustainability initiatives due to regulatory pressures and corporate social responsibility (CSR) commitments, SMEs exhibit a diverse range of environmental behaviors influenced by various social, economic, and institutional factors.

The transition towards sustainable business practices among SMEs is driven by an interplay of motivations that extend beyond traditional economic reasoning. Unlike large firms, SMEs operate within unique social systems that shape their decision-making processes. Social norms, stakeholder expectations, cultural values, and regulatory frameworks interact in complex ways to influence the adoption of environmental practices[4]. Understanding these motives through a social system perspective allows researchers and policymakers to design more effective strategies for fostering sustainability among SMEs.

### **The Role of Social Systems in Environmental Decision-Making**

The social system perspective emphasizes the interconnectedness of businesses with their external environments, where decisions are influenced by multiple social actors, including customers, suppliers, industry associations, local communities, and government agencies[5]. SMEs are often embedded in regional business networks and are subject to peer influence, societal expectations, and cultural values, which can either encourage or hinder environmental engagement. Unlike multinational corporations, which may adopt sustainability initiatives due to global market pressures, SMEs often respond to more localized social influences [6]

Additionally, social legitimacy plays a key role in SME sustainability practices. Many small businesses adopt environmentally friendly measures not just for direct financial benefits but also to maintain their reputation, gain customer trust, and align with evolving societal values. For instance, family-owned SMEs often prioritize long-term environmental stewardship due to intergenerational responsibility and community ties rather than immediate profit motives[7]

### **Motivations Behind SME Environmental Practices**

Existing literature categorizes the motives for SMEs' environmental engagement into three main groups: regulatory, economic, and social drivers [8]

1. **Regulatory Pressure:** Governments impose environmental regulations, such as pollution limits and waste management policies, which push SMEs to comply with sustainability standards. However, compliance-driven adoption may result in a reactive approach, where businesses only meet the minimum requirements.
2. **Economic Incentives:** Cost savings through energy efficiency, waste reduction, and green market opportunities serve as financial motivators for SMEs to invest in environmental practices. However, resource constraints and knowledge gaps often limit their ability to capitalize on these opportunities.

3. **Social and Ethical Drivers:** SMEs frequently engage in sustainability due to moral responsibility, stakeholder expectations, and social legitimacy. Community pressure, consumer awareness, and industry norms influence firms to embrace environmental initiatives voluntarily.

While much research has been conducted on regulatory and economic factors, the social system perspective remains underexplored in SME sustainability studies. This review seeks to bridge this gap by analyzing how social structures, networks, and cultural values shape environmental engagement in SMEs.

### Objective and Structure of the Review

This paper provides a comprehensive review of the literature on the social motives behind SME environmental practices. Specifically, it examines how social legitimacy, community expectations, peer influence, and cultural factors drive sustainability adoption. The review follows a structured approach:

- **Section 2** explores theoretical frameworks related to SMEs' environmental behavior within a social system.
- **Section 3** discusses barriers and challenges faced by SMEs in implementing sustainable practices.
- **Section 4** presents policy and managerial implications, emphasizing strategies for enhancing social support systems to promote sustainability.

By adopting a social system lens, this review contributes to a deeper understanding of why and how SMEs integrate environmental sustainability into their operations beyond economic and regulatory compliance. The findings will aid policymakers, business networks, and sustainability advocates in developing targeted interventions that align with SMEs' social realities, ultimately fostering a more sustainable business landscape.

## 2. Theoretical Frameworks: Social Systems and SME Environmental Behavior

Understanding SMEs' adoption of environmental practices requires a theoretical foundation that considers their embeddedness within social structures. Several theories help explain this phenomenon [9]. Institutional theory suggests that organizations conform to external pressures—regulatory, normative, and cognitive—to gain legitimacy. SMEs, which often lack the visibility of large corporations, seek legitimacy through environmental practices driven by societal norms, industry expectations, and local community influences. Regulatory bodies, industry peers, and cultural contexts shape their sustainability commitments[10].

Stakeholder theory [11] posits that businesses respond to the interests of various stakeholders, including customers, employees, suppliers, and local communities. Unlike large firms, SMEs are more sensitive to local stakeholders due to their proximity and reliance on personal networks

Studies suggest that community pressure and consumer demand are stronger motivators for SME sustainability than regulatory compliance.

Social capital theory highlights the role of trust, networks, and relationships in shaping business decisions. SMEs often operate in tight-knit business ecosystems, where environmental engagement is influenced by peer influence, collaboration with local actors, and industry networks.

### **3. Barriers and Challenges in SME Sustainability Adoption**

Despite strong social incentives, SMEs face several barriers to implementing sustainability practices.

#### **3.1 Resource Constraints**

Unlike large firms, SMEs often lack financial and human resources to invest in sustainability initiatives. Green technologies, certification processes, and waste management systems require capital, which many SMEs struggle to allocate [12]

#### **3.2 Knowledge and Awareness Gaps**

Many SME owners lack the technical expertise to implement environmental practices effectively. Studies indicate that limited sustainability literacy prevents SMEs from identifying cost-effective green solutions.

#### **3.3 Short-Term Business Pressures**

SMEs operate with a short-term survival mindset, where immediate financial priorities often outweigh long-term sustainability goals. Lack of regulatory enforcement further discourages proactive environmental engagement.

#### **3.4 Lack of Institutional Support**

Government incentives and policies are often designed for large corporations, leaving SMEs with inadequate support. Many SME owners feel that sustainability policies are acting as a deterrent rather than an encouragement.

### **4. Policy and Managerial Implications**

To enhance the adoption of environmental practices among SMEs, targeted policies and managerial strategies must be designed within the social system perspective.

#### **4.1 Strengthening Industry Networks and Peer Learning**

Policymakers should encourage green business clusters, sustainability networks, and knowledge-sharing initiatives to facilitate SME learning.

#### **4.2 Enhancing Consumer Awareness and Market Incentives**

Government policies should promote eco-labeling schemes and green consumer awareness campaigns that encourage SMEs to adopt sustainability as a competitive advantage

#### **4.3 Developing SME-Specific Sustainability Incentives**

Subsidies, tax benefits, and simplified green certification programs tailored to SMEs can reduce financial and administrative burdens. The European Union's SME Green Fund serves as a model for such initiatives.

#### **4.4 Local Community Engagement and Cultural Reinforcement**

Policies should integrate community-based sustainability incentives that align with SMEs' social identities. For example, local governments can recognize and reward family-owned businesses that engage in long-term environmental responsibility.

### **5. Conclusion**

The adoption of environmental practices by small and medium-sized enterprises (SMEs) is influenced by a complex interplay of market, judicial, and governmental factors. This review emphasizes that while regulatory enforcement and economic incentives are key motivators, social system factors—such as stakeholder expectations, peer influence, and cultural values—play a crucial yet often overlooked role in the adoption of sustainability practices.

A critical evaluation of the literature indicates that regulatory compliance alone is insufficient to drive proactive environmental engagement among SMEs. Many firms adopt sustainability measures merely to meet legal minimums rather than integrating environmental responsibility into their business models. Furthermore, judicial enforcement, although essential for ensuring compliance, is often limited by inconsistent implementation and resource constraints in many regions, including Sri Lanka.

Conversely, market-driven sustainability efforts—such as consumer demand for green products, supply chain pressures, and corporate partnerships—have emerged as stronger motivators for SMEs willing to embrace environmental responsibility. However, market influence remains uneven, favoring SMEs operating in industries where sustainability is a competitive advantage, while those in traditional or resource-intensive sectors often lag behind.

Social legitimacy and cultural values also significantly influence SMEs' sustainability practices. Evidence suggests that businesses embedded in supportive social networks—including family-owned enterprises and community-driven firms—are more likely to integrate environmental considerations into long-term strategic planning. However, financial and knowledge constraints hinder the full realization of these motives, underscoring the need for policy interventions that enhance SMEs' access to resources and expertise.

This review underscores that SMEs' environmental decision-making is not solely an economic or regulatory issue but a multidimensional process influenced by social systems. Market incentives, judicial enforcement, and governmental policies interact dynamically, shaping firms' environmental commitments in various ways.

While economic and regulatory mechanisms remain foundational, this study highlights the need for greater attention to social and cultural drivers in fostering sustainability among SMEs. Encouraging peer learning, strengthening industry networks, and embedding sustainability into local business cultures can complement traditional policy approaches, leading to more effective environmental adoption.

Future research should focus on empirical case studies to assess how SMEs in different industries and cultural contexts respond to varying social system influences. Additionally, policymakers should consider tailored sustainability programs for SMEs, ensuring that environmental incentives align with their operational realities.

By integrating social system perspectives into SME sustainability strategies, governments, businesses, and communities can collectively drive a more sustainable and environmentally responsible SME sector.

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