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# **Investigation of Institutional and Legislative Barriers and Drivers for Sustainable Transition Development of SMEs in Sri Lanka: A Literature Review**

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## **Abstract**

It is well documented that Small and Medium Enterprises (SMEs) are recognized as the key to economic growth, innovations and market competition in both developed and developing countries. In Sri Lankan context SMEs play a noteworthy role in environmental, social and economic sustainability. This paper attempted to investigate institutional and legislative barriers and to explore the drivers affecting towards the sustainable transition development of Sri Lankan SMEs, through a systemic literature review. In this study researchers developed model framework for sustainable transition development of SMEs and filled the gap of literature in terms of institutional and legislative barriers and drivers on SMEs sustainability. Findings of this study will provide directions for further investigations on barriers and drivers for sustainable transition development of SMEs in an empirical context which is certainly helpful to find out the case specific and unique drivers and barriers for sustainability of SMEs.

**Key words:** Institutional Barriers, Economic Growth, Sustainable Transition Development, Economic Sustainability, SMEs, Sri Lanka

## **1. Introduction**

Small and medium enterprises (SMEs) stimulate domestic demand through job creation, innovation, and competition; thus, they can be a driving force behind a resilient national economy (Shinozaki, 2012; Prasanna et al., 2019; Naradda Gamage et al., 2019; Jayasundara et al., 2019). The development of SMEs is seen as a key to economic growth, innovations and market competition in both developed and developing economies (Paula, Steinhauser, & Soares, 2020).

A strong SME sector in Sri Lanka could provide further employment opportunities and contribute to economic growth and the development of a competitive market system (Velnamby, 2017). SMEs play a significant role in economic growth and development by generating new employments or creating new employment, contributing to growth of GDP, embarking on innovations and stimulating of other economic activities, revenue generation, technological advancement, regional development, entrepreneurs and social development (Karatayev et al., 2016; Naradda Gamage et al., 2020b; Naradda Gamage et al., 2020a; Ekanayake et al., 2020). Therefore, SMEs have become a major asset in Sri Lankan environmental, social and economic sustainability and SMEs are also a crucial source of innovative potential and job creation possibilities.

Sustainable Transition Development (STD) has gained significant importance in today's competitive environment as many organizations still depend on natural resources and at the same time generate environmental pollution. Integration of sustainability considerations in their business strategies is an important ingredient to achieve the resilient of SMEs in the long run (Accountancy Europe, 2020). Nevertheless, the adoption of sustainable practices have become serious challenge for organizations since most of them are not adequately aware on how to utilize the enablers and mitigate the effect of barriers of development (Srivastava, 2007).

Over the past decades, Sri Lankan governments, firms, policy makers and academics have good drivers and become increasingly aware of the sustainable development practices. Firms offering sustainable solutions tend to experience greater obstacles than other firms, and therefore governmental institutions often offer support. Although governmental bodies have been developing and implementing investment programs for research and development to find out sustainable solutions, there is little knowledge about which policies are suitable and effective. Policymakers tend to (unintentionally) favour a particular type of firms (Velnamby, 2017). Weerasiri et al., (2016) conclude that environmental technological innovation may potentially lead to win-win situations in which improvements in environmental quality and economic growth coexist.

Recently, the attention has been shifting to SMEs, since these can provide sustainable renewable energy, technological and green growth solutions that are already demonstrated by means of initial commercial successes. SMEs are typically older than 3 years, have between 10 and 250 staff, and can sell (new) products to their existing customer base in local markets. Despite the attention shift, governmental policy makers are still reluctant to support SMEs as these firms are often more vulnerable to failure due to their small size and sensitivity to environmental change with unexpected environmental fluctuations such as natural and man-made disasters (floods, covid 19, blasterst ), market failures putting severe pressures on their low levels of slack resources. Despite many efforts to push the sustainability transition in this country this transition has remained rather slow, partly due to various policy changes and lack of governmental support, various policy changes are other barriers for sustainable transition in Sri Lanka.

### **SMEs in Sri Lanka**

Sri Lankan SMEs pave the way for socio-economic development in the country making a significant contribution to the country's GDP, employment, trade balance and other aspects (Kodippilarachchi, Priyanath, & Premarathna, 2017; Naradda Gamage et al., 2020c; Bandara et al., 2020). In Sri Lanka, different agencies and institutions use different criteria to define SMEs.

National Policy Framework (2015) for SME development is a notable landmark in the journey to create a more conducive environment for SMEs as it envisions to transform SMEs to large scale as well as sustainable business entity.

Nowadays business are tend to follow the tripple bottom line concept which emphasis the need of striking a balance between people (social well being), planet (environmental sustianblity) and profit (finanacial sustainability) to succed in a dynamic, competitive and challenging business environment.

In this context, environmental technological may potentially lead to win-win situations in which improvements in environmental quality and sustainability growth coexist” (Gamage, 2003). Table 1 shows how the government of Sri Lanka has defined SMEs.

**Table 1: Definition of SMEs**

Sectors	Criteria	Medium	Small	Micro
Manufacturing Sector	Annual turnover	Rs. Mn. 251-750	Rs. Mn.16-250	Lower Rs. Mn15
	Number of Employees	51- 300	11- 50	less than 10
Service Sector	Annual turnover	Rs. Mn. 251-750	Rs. Mn.16-250	Lower Rs. Mn15
	Number of Employees	51- 200	11 -50	less than 10

*Source: National Policy Framework for Small Medium Enterprise Development(2015)*

The objectives of this study are three fold: to analyse global literatures of barriers and drivers for sustainable transition development, to identify nature of the relationship and its various types, identify the research gaps in terms barriers and drivers in sustainable development of SMEs. Researchers covered meticulously captures some important gaps in the current literature and SME reveals that institutional barriers and regulations barriers for SMEs’ STD. Finally section gives a description of the structured model to be used for the review of both institutional and regulations barriers and drivers for sustainable transition of SMEs.

## **2. Methodology**

At the start of the review of the literature, researcher considered about the global and Sri Lankan Small and Medium Enterprises sustainable transition development then different components of the research question were considered. And also researcher noted throughout this review, the terms of institutional and legislations barriers drivers in Sri Lanka. The following research questions were developed to realize the objective: what are the types of institutional and legislation barriers? What are the types of institutional and legislation drivers? What are the less focused barriers and drivers in current literatures? What kind of driver actions taken to promote sustainability development?

First the author performed extensive web search and selected 260 research articles, journals publications were selected for this review. Because the data is taken through survey on only the literature review. The 10 types of barriers and 08 types of drivers found in the literature and the author proposed unique ideological framework in order to reach the objectives of the literature based study. Basically overall identified this paper tends to present several of barriers and drivers around the Sri Lankan SMEs sustainable transition development.

### 3. Results and Discussion

#### **Institutional and legislative barriers recognized for sustainable transitions of SMEs in Sri Lanka**

The literature dealing with institutional and legal barriers to sustainable transition development of SMEs is relatively rich. Levy's (1993) research on the leather industry in Sri Lanka has identified three major constraints access to finance, access to non-financial inputs, and high cost. Research findings showed that lack of financial and recourses were the main obstacles for sustainable development of SMEs. Moreover, a high tax constraint was also identified as an important obstacle for the smallest firms. The research has focused on specific sectors to give more detailed and specific information about the barriers of SMEs face in the chosen firms. However, due to a lack of updated data and the expense of conducting the required surveys, the results cannot be used more broadly.

*Table: 1 Types of Institutional and Legislative barriers for SMEs to sustainable transition development in Sri Lanka*

<b>S/No</b>	<b>Institutional Barriers</b>	<b>S/No</b>	<b>Legislative Barriers</b>
<b>BI 1</b>	Lack of Organizational Resources	<b>BL 1</b>	Weak Legislation
<b>BI 2</b>	Lack of Financial Resources	<b>BL 2</b>	Lack of Environmental Enforcement
<b>BI 3</b>	Lack of Proper System Of Getting Market Information	<b>BL 3</b>	Support From Regulatory Government Agencies
<b>BI 4</b>	Lack of Energy Transition	<b>BL 4</b>	Lack of Guidelines Implementation
<b>BI 5</b>	No Opportunity for Entrepreneurs	<b>BL 5</b>	Lack of Knowledge About Policy Framework
<b>BI 6</b>	Lack of Risk Awareness & Management	<b>BL 6</b>	Negative Perceptions And Attitudes Of Environmental Laws
<b>BI 7</b>	Cost of Waste And Hazardous Products Disposal And Improper Waste Management	<b>BL 7</b>	Lack of Local Authority Compliance Controls
<b>BI 8</b>	Low Public Pressure	<b>BL 8</b>	Absence Of Environmental Impacts Assessments
<b>BI 9</b>	Lack of Market Availability & Competition	<b>BL 9</b>	Lack of Qualified Policy Makers
<b>BL 10</b>	Lack of Government Support For National Innovation Strategy	<b>BL 10</b>	Lack of Environmental Licence

*Source: Authors literature survey findings (2020)*

Pissarides (1999) investigated whether a lack of funds for the green productions are the main barriers to SMEs' development. Survey data gathered from the European Bank for Reconstruction and Development pointed out that lack of financing became an obstacle to SMEs' sustainable transition due to poorly developed capital, markets competitiveness and where credit was accorded according to historical working practice. Additionally, Blackburn (2009) stratified the growth paths into rapid, incremental and episodic and then investigated the impact of access to finance, market conditions and management on the growth of firms.

The results show that rapid growth SMEs were lack of modern machines, no qualified employees, no advanced management and lack of marketing strategy. According to Van, (1993), SMEs haven't good communication system and clearly mention the fact that the supports from government, relative's friends, and consumers, other related firms, international agencies, and fund providers like bank facilities are inevitable for development emerging more and more entrepreneurs and number of SMEs.

The identified barriers have been categorized as institutional barriers and legislative barriers using the existing literature.

### **Institutional Barriers**

**BI 1. Lack of organizational resources:** Researcher identified many of Sri Lankan SMEs suffering lack of organizational resources by review of the literature survey such as lack of modernization of machinery for products development, absence of qualified managers, absence of labours and innovators, use poor products materials etc (Gamage, 2003).

**BI 2. Lack of financial resources:** Karunanayake (1999) suggests that the biggest issues faced by small-scale industrialists is high cost of finance and there are some institutions which support SMEs to find finance in Sri Lanka..

**BI 3. No proper system of getting market information:** There is no proper system of getting market information for SMEs in Sri Lanka. Gamage (2003) points out there is no well coordinated network which provide marketing information and assistance to SMEs in Sri Lanka.

**BI 4. Lack of energy transition:** The study shows that government can help improve the contribution of SMEs to the energy transition, especially via policy measures such as performance audits and network access. In Sri Lanka hardly needs any elaboration of research and development.

**BI 5. No opportunity for entrepreneurs:** Sri Lankan entrepreneurs are Fabian or Drone entrepreneurs. It means they do not innovative anything. This fact shows that there is not innovative culture among the entrepreneurs in Sri Lanka.

**BI 6. Risk awareness and risk management:** Henchel (2008) states that risk management is a challenge for SMEs in contrast to larger firm they often lack of the necessary resources, with regard to human capital, data base and specificity of knowledge to perform a standard and structured risk management (Jayathilaka, 2012).

**BI 7. Cost of waste and hazardous products disposal and improper waste management:** Improper waste management is a barrier to sustainable SMEs growth that the world faces today. Basically waste management divided by corrective actions and preventive actions. Corrective actions are waste management, reduction hazardous waste, recycling and treatments. This action could apply all the firm after the some pollution happened on environment. Preventive actions are waste reduction, waste disposal reuse end of life cycle management process. Company production processes influence for their activities.

**BI 8. Low public pressure:** Low public pressure is the biggest barriers in SMEs in Sri Lanka. The absence of pressure by key social actors like local communities, media, NGOs, banks, insurance companies or politicians. All over the government policy makers and public pressure

want to make stick regulations for SMEs. High public pressures supporting process for SMEs stakeholders also facilitate in accessing advantages ( Malwenna, 2019).

**BI 9. Lack Market facilitation, and skill development:** Sri Lankan market mechanism is less developed towards market facilitation, and skill development because they have no strength market strategies which has the resources and expertise to uplift the standing of the SME Sector. SMEs, micro entrepreneurs, self-employers and especially small scale farmers find it difficult to find the market.

**BI 10. Lack of government support for national innovation strategy and innovation policy:** The support of government rules in Sri Lanka has weakened the sustainable development of SMEs. The governments have mainly focused on granting funds for SMEs, but it was neglected to improve the innovative system of SMEs in Sri Lanka. This in turn requires more resources, enhanced capability and capacity of scientific manpower, and better labs and equipment.

### **Legislative Barriers**

**BL 1. Weak legislations:** At present there is no clear legislative definition for SMEs. Different institutions adopted different definitions. These creates various problems in the implementation of government policy for promoting SMEs. Sri Lankan government should not recognized the urgent need to develop a legislatives and no clear enforcement mechanism such as giving incentives, assistance and tax concessions to SMEs on regular, continuous basis and no clear packaging services.

**BL 2. Low environmental enforcement :** Sri Lankan SMEs policies standers and directives no clear functioning to promotion of natural resources saving and focuses on reducing waste and recycling materials and resources reuse to eliminate excessive product and packaging waste.

**BL 3, 4. Lack of support from regulatory government agencies and lack of guidelines:** Sri Lanka is giving high priority for promoting SMEs but they haven't good integral part of overall industrialization policy and haven't clearly identified what are the strengths, weakness, threats and opportunities (Thrikawala S. , 2011). Sri Lankan SMEs relatively have knowledge, views and attitudes regarding environmental pollution problems but, Sri Lankan SMEs haven't good network and linkages among the industries and other stakeholders.

**BL 5. Lack of knowledge about policy framework:** The SME Policy framework will also give special attention to maintain nature's capital, green growth, entrepreneurship development, women entrepreneurship, craft sector and strengthening enterprise villages, handicraft villages, industrial production villages and SME industrial estates / zones. The Government in supporting enterprises will give preference for the committed, capable and interested entrepreneurs with reasonably good track record.

**BL 6. Negative perceptions and/ or attitudes of environmental law:** A key reason for environmental legislation not being effectively implemented or having much impact on SMEs is due to a general lack of regulatory contact, either because SMEs do not want to initiate contact and/ or because direct face-to-face regulator contact/ enforcement action is limited. This is compounded by those SMEs with negative perceptions and/ or attitudes of environmental law. It was felt that more effective enforcement is a prerequisite of an improvement in SMEs attitudes and perception of the 'environment (Ghazilla, et al., 2015).

**BL 7. Lack of recent policy changes related to SMEs:**

The present policy framework is not favourable and not well focused on SMEs in terms of sustaining environment and natural resources and expanding opportunities for enhancing rural employment. Sri Lankan government policies don't facilitate SMEs to access sufficient and reliable information which lead to make more rational decision, to safeguard transactions from opportunism and to select suitable governance mechanism. SMEs policies change is neglected in supporting formal governance; instead, they have less encourage relational governance to some extent only for selected SME which hinder the development of SMEs across the country.

Following table provides the summary of identified institutional and legislative drivers for the sustainable transition development of SMEs based on existing literatures.

**Table: 2 Types of Institutional and legislative drivers for SMEs to sustainable transition development in Sri Lanka.**

	<b>Institutional Drivers</b>		<b>Legislative Drivers</b>
<b>DI 1</b>	Green Technology, Innovation & Energy Efficiency	<b>DL 1</b>	High Law Enforcement of SMEs Related Laws
<b>DI 2</b>	Improvement of Infrastructures	<b>DL 2</b>	Cooperate Governance Practices And Policies
<b>DI 3</b>	Awareness And Communication of Local Customers In Green Manufacturing Practices	<b>DL 3</b>	Voluntary GMP Regulations And Standard (E.G. ISO 14000 And Eco Labelling)
<b>DI 4</b>	Governmental Incentives Support	<b>DL 4</b>	Compulsory GMP Regulation Mandated By Local Government
<b>DI 5</b>	Strategic Organizational Networks	<b>DL 5</b>	Updating Current Policies And Emission Reduction
<b>DI 6</b>	Reduction Market Failures And Improve Market Opportunities Improvements	<b>DL 6</b>	Environmental Impacts Assessments Score
<b>DI 7</b>	Top Level Management & Brand Management	<b>DL 7</b>	Employee Attitudes Towards Compliance With Environmental Laws / Policies
<b>DI 8</b>	Entrepreneurship Development	<b>DL 8</b>	Implementation Of Environmental Protection License Scheme

*Source: Authors literature survey findings (2020)*

**Institutional Drivers**

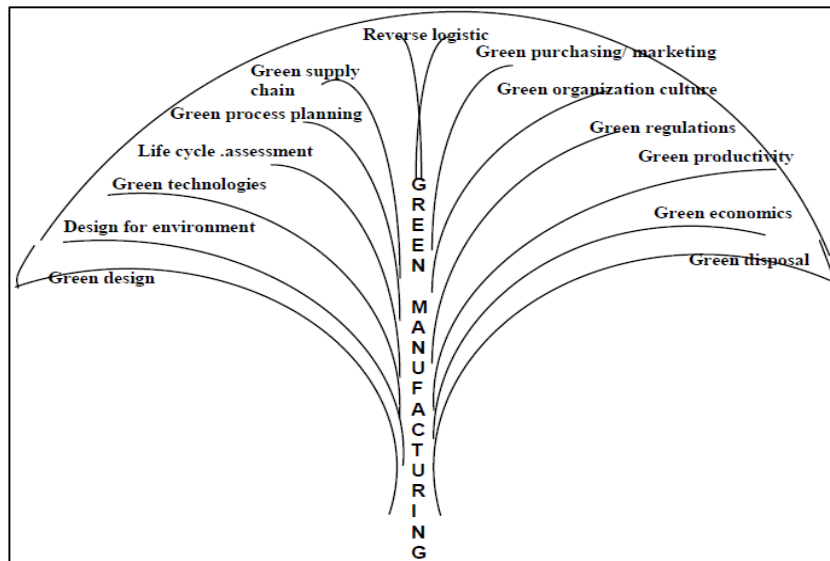
**DI 1. Technology improvements:** To a green manufacturing system, environmental technologies have been applied to the following four areas: manufacturing facilities, operational processes, production technologies and management-oriented factors. Some studies make a general point in using green or environmental technological innovation as an indicator for sustainable growth, thus implicitly assuming technology to be a driver of green growth (e.g. Kijek and Kasztelan, 2013; Samad and Manzoor, 2015; Sueyoshi and Goto, 2014). As this assumption may be disputable and contingent on different contexts, studies provide explanatory empirical and theoretical evidence that investments in technological change and



innovation in specific fields are key drivers of green growth (e.g. Böhringer et al., 2012; de Medeiros et al., 2014 among others; Musolesi and Mazzanti, 2014; Woo et al., 2014).

**DI 2. Improvement of infrastructures:** The government envisages to launch a national program in 2017 to establish 2020 exporters during the period 2017 to 2020. Series of activities carried out under this programme some of as facilitation for setting up infrastructure facilities lands / industrial estate, facilitation for technology transfer / sourcing of machinery /training, facilitation for bank financing and market development as identified and follow up and monitoring. Researcher suggested that an approach based on a public/private partnership approach may be needed to underpin a sustainable and responsive institutional support structure. Internal and external factors influencing adoption of more environmentally-responsible processes. Responsible of SME sector have good policy, advocacy, and related sector promotion activities.

**DI 3. Awareness and communication of local customers in green products:** Further the researcher's state that activities involved in reverse logistics include repair of failed items, recycle and reuse of materials and packing materials etc. Moreover, Muma et al. (2014) in one of their research findings claimed that reverse logistics refers to the role of logistics in product returns, source reduction, recycling, materials substitution reuse of materials, waste disposal, repair and remanufacturing. Firms which practice eco design and packaging, intend to manufacture products and packaging in a way that minimal consumption of materials and energy is utilized. In addition, firms are encouraged to facilitate the reuse, recycle and recovery of component materials and parts (Diab, Bourini & Rumman 2015).



**FIGURE 1: GREEN MANUFACTURING TREE**  
*Sources: Minhaj and Shrivastava, (2013)*

**DI 4. Improvements of government support:**

SMEs may need an institutional support to overcome some of barriers to growth. Local institutions agencies can ideally provide much needed support to new and growing SMEs in the form of provision of information, advice and training services. Some unsuitable tax system and various discriminatory legal regulations can represent a severe burden for SMEs. SMEs related complicated laws, rules and regulations concerning companies can be especially tough

on small and growing companies. It provides an incentive for entrepreneurs to seek ways to evade regulations leading to the growth of the grey economy (Horan, 2011). The Sri Lankan wishes to ride high on the electronic highway and should provide Sri Lankan SMEs “a road map to the digital highway” and stimulate e-commerce. This is supported by the government’s e-Sri Lanka vision, championed by the SMEs in developing Countries (Gamage, 2003).

The present government of Sri Lanka is giving some priority in promoting SMEs. The governmental, non- governmental, NGOs, financial national and international institutions who came to power of SMEs for time to time to fulfilment of the SMEs sector ( Priyanath & Premaratne, 2014). Government of Sri Lanka has been planned to generate more than a million employment opportunities in a few years’ time (Saveen et al., 2016). By considering SMEs importance to the nation, SMEs can create more employment. The Central Bank of Sri Lanka on the advice of the Sri Lankan government introduced “Saubhagya COVID- 19 Renaissance Relief” scheme through Licensed Banks at 4% annual interest rate for 20,240 SMEs affected by COVID-19, 55 billion has been approved and it is aimed at reviving the economic affairs of the economic development .Thus government can give priority to the SME by improving their overall performance.

**DI 5. Strategic organizational networks:** Researcher have shown that the SMEs maintain two types of network relationships. First one is social network relationship and it contains family, relatives, friends and acquaintances. Next one is organizational networks and it consists with supporting networks such as government bodies, Non-Governmental Organizations (NGOs), banks, other SME supporting institutes and inter-firm network relationships such as relationships with large organizations or SMEs. Most SMEs do not function efficiently due to the scarcity of financial resources in setting up and running information systems ( Priyanath & Premaratne, 2014).SMEs need information systems for efficiently running business and also for cost effective and faster means of communication. There is emerging evidence that use of information systems may help to source raw material for their products, find buyer markets for their finished products and staying well informed about environmental conditions, such as market trends, government policy and initiatives, availability of financial resources of efficient technology/machinery. So, it can reasonably be assumed that, there is a vast opportunity for growth in this sector, and that it is imperative to harness the full benefits of the sector to the domestic economy with the help of networking and forming peer groups for better bargaining from large enterprises. ( Malwenna, 2019)

**DI 6. Reduction market failures and improve market opportunities:** Hemachandra and Kodithuwakku (2006) reported that market orientation among resource limited rural farmers in Sri Lanka was relatively poor. They faced some market failures and linking resource-limited farmers to markets provides new opportunities for them. IFAD (2012) reported that their initiatives for the establishment of such links (to convert farming into a competitive and a fast moving sector in Sri Lanka) have been accepted by some farmers and farmer groups in the vegetable cultivating hilly areas of Sri Lanka. One such initiative is the public-private partnership to bring public institutions, private companies such as popular supermarket chains and farmers together to help the farmers to modernize farming (IFAD, 2012). Articles dealing with markets as drivers or barriers of green growth can be divided in three topics: the quality of market elements, the interplay of markets and policy, and the quantity of market elements for greening. Several articles indicate that certain levels of income, growth, development and competition – labelled here as quantity of market elements – under certain conditions may be a driver of green growth.

**DI 7. Top level management & brand management:** Another driver is, professional and skills of brand management is also a good attempt for SMEs sustainable growth. Boatwright, Cagan, Kapur, and Saltiel (2009) demonstrate that business managers and marketing officers realise that brands are only valuable when they provide value to their customers, then building a brand to satisfy customer value is a primary goal to accomplish and gain market share. Nevertheless, the drivers for SMEs is how to create a brand identity that merely meets the needs of existing and new customers, but also can be consistent with product attributes simultaneously. Good management skills are the critical success factor for SMEs sustainable growth in Sri Lanka and it help to assessment current legal and policy statement then enforcement and updating. Therefore Sri Lankan SMEs should focus on top level management, sustainable green human resources management. It has to deal with all most all the functions, manager/owner, stakeholders, employee and consumers for decisions making. If the SMEs want to get strong benefits they can included that functions.

**DI 8. Entrepreneurship development:** empirical findings note that SMEs are important for self-employment, generating employment opportunities for others, increasing GDP growth, contributing to export earnings, supplying livelihoods to stakeholders, and poverty alleviation of the country. Skilled manpower as per sectoral demands, improving productivity and product quality by adopting new technologies, increasing investment capacity and providing product-specific manufacturing skills to the youth by creating and maintaining an enabling environment through harmonisation of government policies, must be addressed. As a developing nation Sri Lanka has attended on entrepreneurship that is a major concept on sustainable economic development. However, Sri Lanka has not yet made a real benefit of entrepreneurship on economic development. It is a serious issue in economy of Sri Lanka and as a result of that has faced more unemployment issues with lower economic growth (Prasanna & Ekanayake, 2019).

### **Legislative Drivers**

**DL 1. High law enforcement of SMEs related laws:** Some SMEs have institutional and regulations' barriers and drivers for sustainable transition SMEs in Sri Lanka, The results include a list of institutional and regulations barriers and drivers for SMEs. Four institutional and five regulations barriers and drivers appear to be highly disadvantageous to an SME's sustainable transition effort: limited financial resources, technological complexity of energy solutions, high market competition, and low legitimacy of renewable energy solutions. The ambition of this driver goal is assisting new enforcement and updated current SMEs policies, standers, rules and regulations. It help to become sustainable transition development, improve market competitive, agro business development, improve more effective use of the green manufacturing system, getting environmental standards and proper waste management system. Basically it can only be really attained if all the relevant actors in the public, private and civil society sectors make sustained efforts to bridge the gap in law awareness of, access to, and use of the green policy system by inventors, researchers, entrepreneurs and SMEs. Limited of researchers studied that high law enforcements drivers for on the sustainable development of SMEs in Sri Lanka (Constant et al. (2014) plan an overarching institution governing the fertility behaviour of adults, who generally accept an improvement of their economic situation to come along with a lower quality of the natural environment for their children at a later point in time. Therefore this driver is tested in its validity, policy is a signals for sustainable development.

**DL 2. Cooperate government practices and policies:** Cooperate Government practices and policies are the set of processes, customs, policies' makers, laws, stakeholders and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance comprises the long-term management process and oversight of the company in

accordance with the principles of responsibility and transparency. Mechanisms that protect the interests of the shareholders are known as Corporate Governance mechanisms. Good corporate governance helps in sustainable. good governance is an important element in developing a market economy and in promoting economic growth, especially in emerging and transitioning economies (Judge et al 2003, McCarthy and Puffer 2003). Some of SMEs managers may also run their companies as if it were only their stakes that were involved and satisfying own interest to the detriments of other main stakeholders and the company as a whole and SMEs may however be less likely to have resources to accomplish corporate governance developments. (Ghazilla, et al., 2015). Therefore, it is important to make the public aware to promote the understanding of principles of good governance in SMEs.

***DL 3. Voluntary GMP regulations and standard (e.g. ISO 14000 and Eco Labelling):*** From 1997 to 2002 the world wide certification of ISO 14000 had increased more than ten times claims Hosseini (2007). Sri Lankan governments implemented ISO 14000 standards and addresses various aspects of environmental management for SME sectors. ISO 14001:2004 and ISO 14004:2004 standards are deal with environmental management systems (EMS). And also ISO 14001:2004 provides the requirements for an EMS and ISO 14004:2004 gives general EMS guidelines for and services sectors. Voluntary Green Manufacturing regulations, standards and guidelines in the family address specific environmental aspects, including: monitoring, eco labelling, performance evaluation, LCA, communication and auditing. It evaluates the environmental impact assessments of a company or firms and its products. It is designed to help set targets, develop and prioritise environmental response plans, document policy and procedures, implement ongoing measurements against targets, and provide guidelines for internal auditors.

***DL 4. Compulsory regulation mandated by local government:*** strict orders of government can play a strategic role in supporting the SME sector, in particular, in cases of market failures, incomplete tax, market based principle. Government regulations measures problems and to promote SMEs should be carefully focused, aiming at making work efficiently and at providing incentives for the private sector to assume an active role in SME. It further improve the awareness among entrepreneurs of the range of financing options available from official programmes, private investors, and banks. Government regulation should be necessary, National policies should encourage diverse forms of institutional savings and institutional investors should be regulated flexibility for environment encourages the sustainability development.

***DL 5. Updating current policies and emission reduction:*** If the current laws policies updated from good affected of discrepancy between personal viewpoints and business activity. As a result where environmental policies are undertaken, they tend to be largely reactive in nature, one-off, and focus on emission reduction (“end-of-pipe treatments”) rather than on pro-active pollution prevention measures (Pushpakumari & Watanabe, 1992). Most of Sri Lankan SMEs attempting to use and try to focus on eco-solutions and substantial changes in materials, production processes or operations management and materials recycling. This is why the legislations are one of the driving forces and signal of the sustainable growth. Legislations draw specific recommendations and policy adjustments of different levels of governance on SMEs. Global environmental policy in the last decades, has caused a structural break in the global carbon dioxide emissions economic development relation. Therefore SMEs owners and stakeholders must aware from organizing board meeting. So current awareness and environmental practices adopting environmental standards, policies, directives and ISO 140001, EMS. Further more, despite such overwhelming emphasis on current laws, and an agreement

on the fact that proactive policy in general is a crucial driver of green growth the distinct effects of certain policies may not always be easy to disentangle.

***DL 6. Environmental impacts score:*** An Environmental Impact Assessment is one of the analytical tool for examines the possible environmental consequences of the implementation of projects, programmers, activities and policies (Ngniatedema, Li, & Illia, 2014). To accommodate the fact that some companies operate in more than one industry, Truscott uses a benchmarking system for each of those sectors from publicly disclosed environmental data (e.g. the EPA Toxics Release Inventory). Truscott also scrutinized the quality of any outside data first before it usage (Ngniatedema, Li, & Illia, 2014).

***DL 7. Employee attitudes towards compliance with environmental laws / policies:*** Green policies play a vital role in some Sri Lankan economic industries. A green policy is help to every firm's statement about the commitment to sustainability and environmental management that business is prepared to make.(Ngniatedema, Li, & Illia, 2014). Basically it directives showed to employees and customers that managing environmental issues is a high priority for your company. Green produces, green process, green use and green end of life management are included in green policies (Bhattacharya, Jain, & Choudhary, 2011).

***DL 8. Implementation of environmental protection license scheme:***

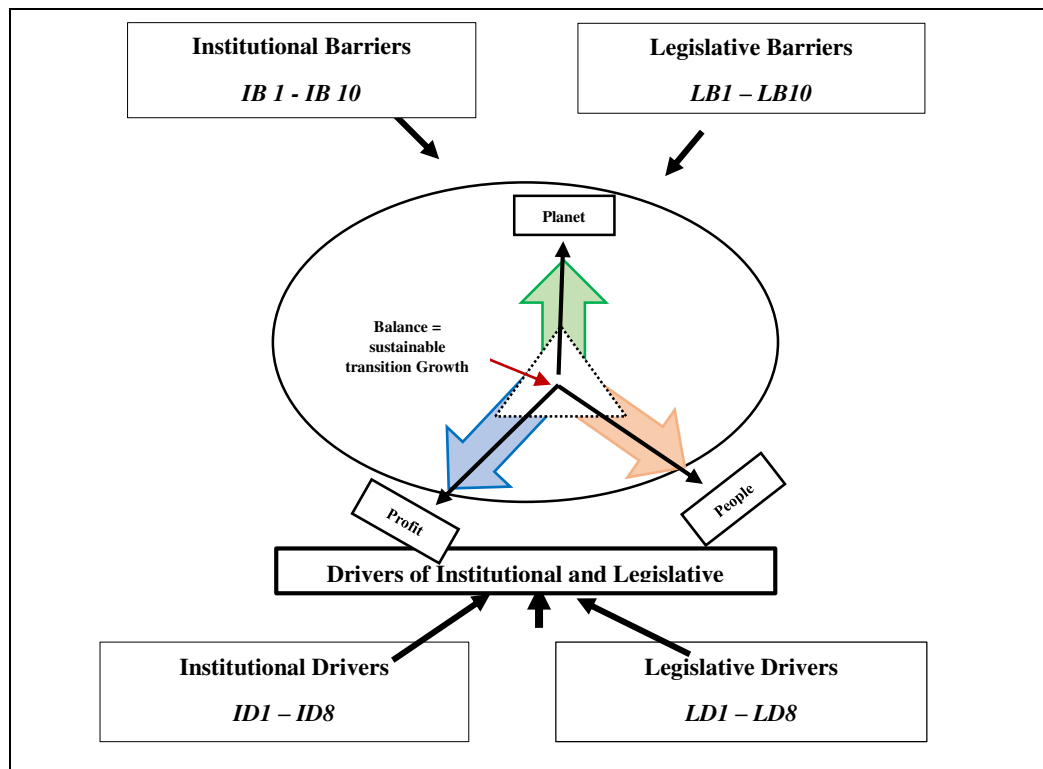
We have been practiced the Environmental Protection License (EPL) as a regulation / legal tool under the provisions of the "National Environmental Act No: 47 of 1980" amended by Acts No 56 of 1988 and No 53 of 2000. And also in 25.01.2008, industries and activities, which required an EPL are listed in Gazette Notification No 1533/16 dated. Those industries are classified under 3 lists i.e., List "A", "B" and "C" depending on their pollution potential. It included with 3 parts. Part A: 80 significantly high polluting activities, Part B: 33 numbers of medium level polluting activities, Part C: 25 low polluting industrial activities. The Local Authorities in Sri Lanka carry out problems of EPLs and related functions such as follow up, monitoring and rules and directives enforcement.

### **Less focus barriers and drivers in the literature and reasons**

Sri Lanka as a developing country is facing lots of barriers in order to achieve sustainable development in SMEs sector. According to the available literature it is evident that there are institutional barriers and legislation barriers where the country faces the most. Sri Lankan governments play a valuable role in the integration of SMEs into the international supply chain by creating small business administrations that have the responsibility of assisting SMEs; business associations can be encouraged to accept some of this responsibility. Government have weak incentives supporting process for SMEs stakeholders also facilitate in accessing financing ( Malwenna, 2019). At the same time, Sri Lankan SMEs suffering some tax impositions such as importation of pharmaceutical machinery and spare and equipment for bakery products, manufacture of footwear, and bags, unprocessed agriculture, and fishing, machinery for the production of rubber and plastic products, molding (steel, glass, rubber, or plastic), items needed in the poultry industry. According to the literature it is clear that in the Sri Lankan context, the focus on barriers and drivers is comparatively less than the other countries. One of the main reason for that is, although the government has taken some initiatives to overcome these barriers, the implementation of the drivers is lacking behind.

## Driver actions to promote sustainability development

It is important for a SME firm to be sustainability tory challenges. However, the importance of economic, environmental and social dimensions varies from time to time and according transition development in choosing correct and appropriate drivers to solve the SME's financial, institutional and regula to different criteria. According to the past literature, the reasercher has identified several drivers to overcome the institutional and legislation barriers in order to gain the sustainable development. The identified facts has been elaborated usig a framework as below:



*Figure 2. Framework for SMEs sustainable transition development*

## 4. Conclusion

SMEs are effective tools for poverty alleviation in Sri Lanka. Government promotions and regulations consider important for effective implementation of policies and regulations. Feels burdened with current rules and regulations and not of any help to improve their performance. The researcher faced some difficulties to find out empirical evidence in Sri Lankan context to justify this situation because lack of research and development therefore available literatures are limited. According to the global and Sri Lankan evidence researchers identified institutional and legislative barriers were significant negative relationship on SMEs sustainability but institutional and regulations drivers were significant positive relationship on SMEs. And also researcher find out structured research framework and fill gap of literature on institutional and regulations barriers and drivers on SMEs sustainability growth. The study suggested the above framework for SME firms becoming increasingly important and applicable in promoting sustainability development in Sri Lanka. Findings of this literature based study laid foundation for further exploring of barriers and drivers for sustainable transition development of SMEs in an empirical context which certainly helpful to find out the case specific and unique divers and barriers for sustainability of SMEs.

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