

## **Impact of Firms' Adaptation of Eco-Friendly Product Innovations on Firm Performance (The Case of SMEs in Kurunegala District)**

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Recently, companies identified the concept of eco-innovation as a key aspect of conducting business. According to National policy framework for Small and medium enterprises, eco-friendly innovation is a major policy initiative, which drives Small and medium enterprises. However, the literature on eco-friendly innovation is more focused on identifying factors affecting adaptation and identifying customer perspective of eco innovations. Also, little research attention has been given in identifying the impact of eco initiatives provided by government and companies themselves for the betterment of organizations. Therefore, this study examines the relationship and the impact of eco-friendly product innovations on the performance of Small and medium enterprises with recognizing the importance of managerial environmental concern. Covering the above aspects, a model was constructed by taking the adaptation of eco-friendly product innovations as the independent variable, firm performance as the dependent variable and managerial environmental concern as the moderate variable. Data were then collected across 50 Small and medium enterprises in Kurunegala district covering eight sectors using convenient sampling. To achieve the desired objectives, the analysis was carried out using Pearson correlation analysis, regression analysis, descriptive statistics and hierarchical regression analysis respectively. Results of the analysis indicated that adaptation of eco-friendly product innovations significantly and positively affects firm performance while managerial environmental concern enhances this relationship. Findings of this study enhance the literature on understanding the impact of eco-friendly product innovations on firm performance and the importance of managerial environmental concern. Also this study suggests implementation of more programmes to integrate eco innovations into SME firms while providing some future research areas.

*Keywords:* Eco-friendly innovations, Eco-friendly product innovations, Firm performance, managerial environmental concern, Sustainability