



**IMPACT OF FIRMS' ADAPTATION OF ECO-FRIENDLY PRODUCT INNOVATIONS ON FIRM PERFORMANCE
(THE CASE OF SMEs IN KURUNEGALA DISTRICT)**

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ABSTRACT

In recent times, companies identified the concept of eco-innovation as one of the important aspect in conducting business. According to National policy framework for Small and medium enterprises, eco-friendly innovation is a major policy initiative, which moves Small and medium enterprises forward. However, little research attention has been given in identifying relationship between firms' adaptation of eco-friendly product innovations and firm performance in order to identify the actual impact of initiatives provided by government institutes as well as companies themselves for the betterment of organizations. Therefore, this research study conducted in order to identify the relationship and impact of eco-friendly product innovations on performance of Small and medium enterprises. This study also recognized the importance of managerial environmental concern towards eco-friendly innovation adaptability. By considering above aspects a model was constructed to identify the relationship between adaptation of eco-friendly product innovations and firm performance and the moderation effect of managerial environmental concern. Data were collected across 50 Small and medium enterprises in Kurunegala district covering eight sectors using convenient sampling. Data analysis was performed using Pearson correlation analysis, regression analysis, descriptive statistics and hierarchical regression analysis. 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 further. Outcomes of this study provided implications like enhancing available literature, to understand the real impact of eco-friendly product innovations on firm performance to policy makers and to managers which drive them to alter or enhance the policies. This study also suggests some further research areas for future research.

Keywords: *Eco-friendly product innovations, Firm performance, managerial environmental concern, Small and medium enterprises and Sustainability.*