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## **Factors Influencing Social Commerce Adoption by Small and Medium-Scale Enterprises in Sri Lanka: A study based on Technological, Environmental and Entrepreneurial Framework**

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### **Abstract**

Small and medium-scale enterprises (SMEs) must comprehend social networks and the tactics for utilizing social media (SM) for business expansion in the new digital era. SMEs are essential to the economic success of any country because they play a major role in most international economies. In the same manner, the Covid-19 epidemic in later 2020 has reformed people's mode of lifecycle and dealt with information. This has created more lead to the expansion of social media usage for consumers and business assistance. This study focuses on the technological, environmental and entrepreneurial elements that have an impact on the adoption of social commerce by SMEs in Sri Lanka. The TEE framework has developed with the factors of technological availability, customer pressure, competitive pressure, Bandwagon effect, attitude, innovativeness, and IT knowledge. The transference of electronic commerce activities and transactions through social media is known as "social commerce". The simple random sampling technique was utilized to select business owners from the target population of SMEs listed at chambers of commerce. 384 SMEs in the Western Province (Colombo, Kalutara, Gampaha) were chosen for the data analysis of this study. Structural Equation Modelling (SEM) was used to test the developed hypotheses. The results show that adopting social commerce in SMEs in the Western Province of Sri Lanka is practical and hugely beneficial to all parties involved, especially within the South Asian context. Entrepreneurs who are fascinated with social commerce for their brands will find the study to be insightful. Additionally, it will help policymakers develop specific social commerce deployment leads that should be broadly adopted and focus on management and ownership training for SMEs. The study's findings showed the importance of utilizing social media in daily business activities as most

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SME owners hold the belief of possessing the required knowledge, skills, and resource in their business operations with social media as the focus point. The present research is one of the significant studies that the researchers are conscious of that conducts a thorough quantitative study of the factors affecting the adoption of social commerce by SMEs with a special emphasis on entrepreneurial factors.

**Keywords:** Small and Medium-scaled Enterprises, Social Commerce Adoption, Social Media, Sri Lanka, TEE Framework, Western Province.

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## **01. Introduction**

SMEs in developing nations should embrace applications for social media due to the actively engaging, simplicity, relatively inexpensive, and demographic focus. Due to globalization, the development of technology, Covid-19 pandemic and functions inside the country, social media has started growing to serve as an essential part of marketing and sales-related activities in Sri Lanka. Whereas larger businesses have adopted the technology considerably earlier, SMEs in Sri Lanka have only lately started exploring the possibility of using such technology (Gunawardane et al., 2022). It seems due to both ethical and financial concerns, SMEs in Sri Lanka have been hesitant to use social media. But things are beginning to improve. Facilities for technology, government assistance, and digital literacy have all played major roles in changing that perspective (Alsharji et al., 2019). The objective of this study is to identify the impact of technological, environmental, and entrepreneurial factors influencing the social commerce adoption by SMEs in Sri Lanka. The study could create a foundational understanding of how SMEs in Sri Lanka are using social commerce. Being the first study of its sort, it may offer a thorough review of the variables influencing social commerce adoption in this setting and stand as a benchmark for further studies. The study's identification of the critical elements influencing social commerce adoption could offer insightful information about the difficulties and opportunities associated with this type of e-commerce and guide the creation of practical adoption strategies.

## **02. Research Problem**

Businesses in developing countries are increasingly adopting SM. SMEs presently view it as a crucial strategy (Qalati et al., 2021). Recent findings have shown that in order to guarantee their competitiveness and profitability, SMEs must apply high-tech ideas appropriately (McCann & Barlow, 2015). This opens the issue of what exact factors have an impact on SMEs' adoption of social commerce. The response is significant since it is widely known that SMEs perform an influential role in economic growth in every country around the globe.

Furthermore, it's highly debatable if SC principles can be applied uniformly across all enterprises. While SMEs are behind in the implementation of SC, large corporations around the world have adopted SC in managing their business operations and promotions. (Qalati et al., 2021). According to their structure and technological requirements, it appears that large and small businesses behave differently when adopting social commerce. Few small businesses have a proper plan when they begin using social media, and many people are still unaware of innovative sales tactics (Hassan et al., 2015).

Hence, it is important to have a sound understanding of the aspects that significantly impact social commerce to participate in it properly. It is essential to have a clear awareness of how SC adoption will affect SMEs' performance to run a successful business currently as well as in the future.

### **03. Literature Review**

#### **3.1. SMEs in Sri Lanka**

The SME sector is regarded as the foundation of the economy. As a result, many Sri Lankan government agencies have devised plans to promote this important sector (Udani & Gunatilake, 2016). “The Sri Lankan government sees SMEs as the lifeline of the economy since they add up to more than 75% of all enterprises, 45% of all jobs, and 52% of the nation's GDP” (Ministry of Industry Commerce (2015). Micro, small, and medium-scale businesses are referred to as SMEs. Several definitions of SMEs exist in many nations, depending on how developed they are. The cumulative count of employees, annual income, and total investment are the benchmarks that are usually used. The Sri Lankan SME policy framework divides SMEs into groups focused on their annual income and employee count.

#### **3.2. Social Commerce Adoption**

“The transmission of electronic commerce activities and transactions through social media is described as "social commerce" in the literature” (Liang & Turban, 2011). Social media platforms are increasingly becoming a crucial component of business operations, and Small and Medium-sized Businesses (SMEs) may compete with large organizations while utilizing fewer resources because of their accessibility and ease (Qalati et al., 2022). Larger businesses began using social commerce far earlier, while Sri Lankan SMEs have only recently begun to investigate the possibility (Samsudeen et al., 2021). Companies in Sri Lanka have recognized the effectiveness and productivity of implementing social commerce. Small and medium-sized enterprises (SMEs) in Sri Lanka have benefited from social commerce, which encourages customers to buy their goods, making their goods and services more widely known (Samsudeen et al., 2021).

#### **3.3. Technological, Environmental and Entrepreneurial (TEE)**

##### **Framework**

##### **3.3.1 Technological context**

Technological context refers to technology that is already in use in an organization, or that is existing and is regarded as valuable but yet to be employed (Zhu & Kraemer, 2005). Technology Availability (TA) covers a lot of sub-factors such as the availability of hardware and software facilities, internet speed and stability to conduct business operations as well as the availability of computer access and connectivity for sub-domains and lastly possessing and having technical and financial resources to do business activities.

According to the above explanations, the below hypotheses is developed.

*H1: Technology Availability has a significant impact on Social Commerce Adoption by SMEs.*

### **3.3.2 Environmental context**

Environmental context refers to the environment in which the business carries out its business activities. Any pressure that is directed towards or generated by customers is referred to as Customer Pressure (CP). Competitive Pressure (CompP) refers to “the degree of pressure from competitors within the industry/market as felt by the organization” (Rahayu & Day, 2015).

Researchers argued that SMEs should adopt SM in response to their competitors to gain a competitive advantage and the relationship between competitive pressure has a significant impact on SMEs' performance (Khayer et al., 2020); (Qalati et al., 2021). The Bandwagon Effect (BE) is a conceptual phenomenon. It suggests that businesses or people may operate in a certain way, such as using cutting-edge technology, for tactical rather than strategic motives (Schmitt-Beck, 2015). The widespread use of a certain technology will strongly persuade other people to follow suit. According to several research, the bandwagon effect significantly influences people's use of social media (Samsudeen et al., 2021).

According to the above explanations, the below hypotheses are developed.

*H2: Consumer Pressure has a significant impact on Social Commerce Adoption by SMEs.*

*H3: Competitive Pressure has a significant impact on Social Commerce Adoption by SMEs.*

*H4: Bandwagon Effect has a significant impact on Social Commerce Adoption by SMEs.*

### *3.3.3 Entrepreneurial context*

The adoption of electronic commerce is mostly influenced by the business owner (Rahayu & Day, 2015). An entrepreneur's capacity to seize new opportunities, demonstrate innovation, support, and try out novel concepts and procedures is referred to as Innovativeness (I) (Satar & Alarifi, 2022). The owner's IT knowledge and attitude have complementary effects on how readily SMEs adopt the social commerce (Gu, 2022).

According to the above explanations, the below hypotheses are developed.

*H5: Attitude has a significant impact on Social Commerce Adoption by SMEs.*

*H6: Innovativeness has a significant impact on Social Commerce Adoption by SMEs.*

*H7: IT knowledge has a significant impact on Social Commerce Adoption SMEs.*

## **3.4 Conceptual Framework**

The conceptual framework of this study is constructed with the essence of a review of past literature to analyse the factors influencing social commerce adoption by SMEs in Sri Lanka.

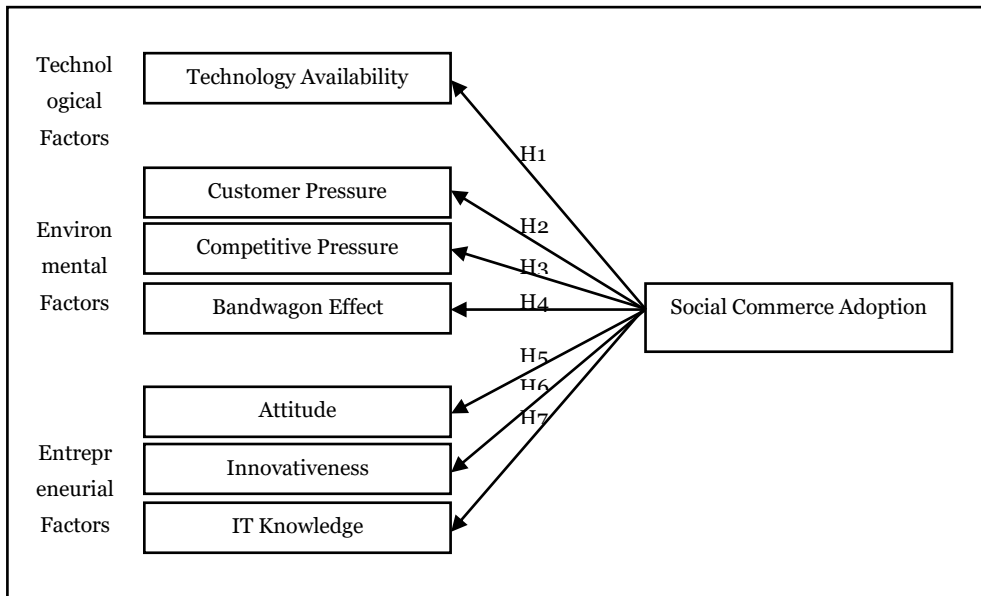


Figure 3.1: Conceptual Framework

## 04. Methodology

### 4.1. Sampling and Data Collection

The survey approach was utilized to gather primary data from Sri Lankan Western Province SME owners through the distribution of a questionnaire. This study employed simple random sampling. Responses were gathered using a Five-point Likert-style rating scale, with 1 being the strongest disagree and 5 being the greatest agree, to measure the selected components according to the TEE framework. For the benefit of those with varied cultural and linguistic backgrounds, the questionnaire was translated into Tamil and Sinhalese. The length, simplicity, and clarity of the language used in the survey's items were assessed once again. An initial analysis of the pilot test data was done to make sure that the data gathered would allow the investigation's questions to be answered.

### 05. Data Analysis

Latent variable estimates using observable variables are made possible by SEM, and SPSS and AMOS were used for the Data analysis.

#### 5.1. Reliability and Validity Assessment

The findings of Cronbach's alpha test are displayed in Table 5.1 along with the total number of items utilized to investigate every construct. All the structures have adequate consistent measurements. The indices of Cronbach's alpha, which are all more than 0.7, varied from 0.911. These results show that the indicator system exhibits internal solid consistency and dependability and that each of the constructs is appropriate for further examination.

Table 1: Reliability Statistics

Variable	No. of Items	Cronbach's Alpha
Technology Availability	5	0.751
Customer Pressure	6	0.706
Competitive Pressure	6	0.777
Bandwagon Effect	5	0.734
Attitude	5	0.754
Innovativeness	5	0.870
IT Knowledge	5	0.821
Social Commerce Adoption	7	0.775
Total	44	0.911

The KMO value (0.866) indicates that the sampling is adequate. Further, Barlett's test result (0.000) suggested that there is a substantial correlation in the data.

Table 2: Validity Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.866
Bartlett's Test of Sphericity	Approx. Chi-Square	7272.531
	df	946
	Sig.	0.000

## 5.2. General Profile and Demographic Analysis

According to the Gender Statistics, from the responses received, the male respondents accounted for 79.94% while the Female respondents accounted for 20.05%. From the results gathered, the 25-60 years of age bracket is the greatest in response to the questionnaire as it tallies up to 94.27%. Passed GCE (A/L) option was the most answered by the respondents with a count of 139 which accounted for 36.19% of the respondents. Colombo district has the highest percentage of respondents by a distance with 84.89% of the respondents who answered the questionnaire. The Textile and Apparel sector accounted for the highest response rate with regards to a sector which is 25.26% of the respondents.

Table 3: Age

Age	Count
> 60 yrs	10
14 yrs - 25 yrs	12
25yrs – 60 yrs	362

Table 4: Gender

Gender	Count
Female	77
Male	307

Table 5: Education

Education	Count
Degree or Equivalent Higher	127
Passed GCE (A/L)	139
Passed GCE (O/L)	56
Other	62

Table 6: Geographical Location

District	Count
Colombo	326
Gampaha	58

## 06. Results and Discussion

### 6.1. Measurement Model Assessment

Table 7: Model Fit Summary, CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	75	1830.435	555	.000	3.298
Saturated model	630	.000	0		
Independence model	35	5889.291	595	.000	9.898

Table 8: RMR, GFI

Model	RMR	GFI	AGFI	PGFI
Default model	.068	.752	.718	.662
Saturated model	.000	1.000		
Independence model	.091	.343	.305	.324

Table 9: Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.689	.667	.761	.742	.759
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

Table 10: Parsimony-Adjusted Measures

Model	PRATIO	PNFI	PCFI
Default model	.933	.643	.708
Saturated model	.000	.000	.000
Independence model	1.000	.000	.000

Table 11: NCP

Model	NCP	LO 90	HI 90
Default model	1275.435	1149.539	1408.896
Saturated model	.000	.000	.000
Independence model	5294.291	5051.556	5543.530

Table 12: FMIN

Model	FMIN	Fo	LO 90	HI 90
Default model	4.779	3.330	3.001	3.679
Saturated model	.000	.000	.000	.000
Independence model	15.377	13.823	13.189	14.474

Table 13: RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.077	.074	.081	.000
Independence model	.152	.149	.156	.000

Except for the CFI value, which similarly shows just a slight deviation from the allowed value, the preceding tables demonstrate that the model fit is quite good across all of the various model fit indices. It demonstrates the extent to which an improved full structural model fits the data as compared to a path model. A greater comprehension of the variance in the model can be provided by modernizing measurement error on the indicator level.

## 6.2. Structural Model Assessment and Hypotheses Testing

Model Fit Indices results are shown in below Table 6.2.1

Table 14: Model Fit Indices

Model Fit Indices	Value	Obtained Value
The ratio of chi-square to degrees of freedom ( $X^2$ /df)	<5	3.026
Goodness-of-fit index (GFI)	>0.90	0.785
Comparative fit index (CFI)	>=0.90	0.793
Normalized fit index (NFI)	>=0.90	0.723
Incremental fit index (IFI)	>=0.90	0.795
Tucker-Lewis Index (TLI)	>=0.90	0.772
The root-mean-square error of approximation (RMSEA)	<=0.08	0.073

Source: Authors' compilation based on AMOS results

Table 15: Results of the Structural Model (n = 384)

Paths	P Value Coefficient	C.R.	Hypotheses
Social Commerce Adoption $\leftarrow$ Attitude	.002	3.166	H1: Supported
Social Commerce Adoption $\leftarrow$ Bandwagon Effect	***	5.632	H2: Supported
Social Commerce Adoption $\leftarrow$ Customer Pressure	.787	0.21	H3: Not Supported
Social Commerce Adoption $\leftarrow$ IT Knowledge	***	4.332	H4: Supported
Social Commerce Adoption $\leftarrow$ Innovativeness	.197	1.291	H5: Not Supported
Social Commerce Adoption $\leftarrow$ Technology Availability	.002	2.116	H6: Supported
Social Commerce Adoption $\leftarrow$ Competitive Pressure	.231	-1.199	H7: Not Supported

The model was tested through SEM. The Attitude, Innovativeness, IT Knowledge, Bandwagon Effect, and Technology Availability displayed values which were presented as,  $P \leq 0.001$  which indicated that the null hypotheses can be rejected but the probability is high that the Alternative hypotheses are true. Which means they are statistically significant.

Competitive Pressure, Innovativeness and Customer Pressure displayed p-values as 0.231, 0.197 and 0.787 respectively which indicated that not statistically significant and indicated



strong backing for the null hypothesis which in turn means the Alternative hypotheses are rejected.

Table 16: Results of the Correlation Analysis (n = 384)

	TA	CP	CO	BE	AT	IN	IK	SA
TA	1							
CP	.312**	1						
CO	.270**	.537**	1					
BE	.339**	.377**	.483**	1				
AT	.285**	.275**	.257**	.408**	1			
IN	.226**	.365**	.486**	.282**	-0.081	1		
IK	.313**	.224**	.383**	.313**	.291**	.276**	1	
SA	.339**	.310**	.387**	.491**	.443**	.245**	.458**	1

\*\* Correlation is significant at the 0.01 level (2-tailed)

### 6.3. Discussion

Findings show it is important to use social media in daily business activities as most SME owners are of the belief that they possess the required knowledge, resources and skills to operate their businesses in a social media centric way. Other findings show that if SME owners are not using social media for business activities, it will harm their relationships with key customers. Another finding that is discovered was SME owners use social media for their businesses because of high competition in the industry.

If the P value of the above variables is below 0.01, the variables are significant. In the reliability test, the indicator system shows internal solid consistency as all the indices of Cronbach's alpha test showed values more than 0.7 which is the benchmark of this test. The Validity test which employed KMO measures indicated that the sampling was adequate with values in this test ranging from 0.8 to 1.0 which is the benchmark of the test. The total value of all the variables in the reliability test was 0.911 while the total value of all variables in the validity test was 0.866.

The model fit indices gave off a value of 3.026 which fits within the ideal benchmark value of the Chi-square test where the benchmark is 5 or below in value. The following metrics were used to evaluate the model fit of the study. GFI, CFI, NFI, IFI and TLI and RMSEA to go along with Chi Square value. The values achieved by those metrics are shown above in the table.

The structural model of the study represents the results of the particular study and talks about the relationships with the variables with regard to P-Value coefficient and CR Value. As shown above in the table and discussed earlier, the results achieved displayed that only three variables don't support and have a statistically significant impact. Which were Customer Pressure, Innovativeness and Competitive Pressure. All other variables displayed statistical significance and showed a positive impact.

## 07. Conclusion

This research proposes a social commerce adoption model to highlight the importance of the role of social commerce in facilitating the daily business operations of Western Province SMEs in Sri Lanka. The results show that adopting social commerce in Western Province SMEs in Sri Lanka is practical and hugely beneficial to all parties involved, whether it's the seller, buyer or intermediaries facilitating the transaction. This applies irrespective of the age, gender, and education level of the respondent which is in this case the SME Owner.

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