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## Impact of Digital Transformation on the Performance of SMEs

Abeygunasekara, N.N.<sup>\*a</sup> & Rodrigo, P.D.S.D.<sup>b</sup>

<sup>a,b</sup> *Department of Management and Entrepreneurship, Faculty of Management and Finance, University of Ruhuna, Sri Lanka*

*<sup>a</sup>nishadi.abeygunasekara@gmail.com, <sup>b</sup>dasanthi2r@gmail.com*

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### Abstract

Most businesses are connected with modern technology and run their business activities using technical equipment nowadays. With the development of ICT, businesses had to face various challenges and for other businesses, it was an opportunity for the growth of their business. Because of that, most businesses were approaching digital transformation today. With recent advancements in digital transformation resulting in increased capacity, improved performance, information accessibility, and lower technological costs, every organization must seize this opportunity and engage in digital transformation. Adoption of digital transformation would assist SMEs in growing, developing, increasing market share, and gaining a competitive edge. The purpose of this study was to determine digital transformation adoption among SMEs in the Rathnapura District to determine the impact of Digital Transformation adoption on the business performance of small and medium-scale entrepreneurs. In this study, authors have used the cost of digital transformation, Digital literacy, and the establishment of digital strategy to measure digital transformation (Independent variable) while the performance of SMEs is used as the dependent variable. The study adopted a quantitative approach using 100 SMEs in the Rathnapura district. The surveys were conducted at convenience to these SMEs, who are registered in Small Enterprise Development Division in Rathnapura District which are in the manufacturing and service industries. The data was then cleared and sorted before being entered into SPSS for analysis. This study provides a solid foundation for future research on Digital Transformation and its impact on SMEs' performance in Sri Lanka. Moreover, the findings of this study revealed that there was a significant positive impact of digital transformation on the performance of SMEs.

**Keywords:** Cost of Digital Transformation, Digital Literacy, Digital Transformation, Establishment of Digital Strategy, SMEs organizational performance

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<sup>\*</sup>nishadi.abeygunasekara@gmail.com

## **01. Introduction**

Digital technology, digital innovation, and digitization are fundamentally changing business processes, products, services, and relationships as well as driving enterprises to fundamentally change. Digital transformation (DT) has become a new approach for many companies to gain a competitive advantage in the context of intense and dynamic market competition. Many organizations apply DT with a positive impact on corporate business performance and productivity, leading to increased excellence and achieving innovation and sustainable development (Zhang, Xu., & Ma, 2022). However, Small and medium-sized enterprises (SMEs) face higher barriers to digital innovation than large enterprises due to small scale, limited resources, insufficient capabilities, and other constraints, making DT more difficult to successfully implement. Moreover, DT is a complex system engineering, which is influenced by the interaction of many factors to jointly promote the success of DT (Zhang, Xu., & Ma, 2022).

Digital transformation can provide various benefits including improving organizational processes, improving customer value propositions, improving the quality of customer services, achieving customer engagement, reducing the cost of products or services, increasing Innovation, competitive advantage, customer retention, and improving customer experience (Chent et al., Kitsios, & 2019b, 2019b). In every industry, digital transformation has a positive impact on barriers to individuals, enterprises, processes and disrupts the industry ecosystem. They are changing the relationships between consumers, workers, and employers as innovations penetrate and invade nearly everything from online grocery sales to a Website life partner (Muhlisen, 2018). By removing these barriers, Digital Transformation (DT) can be “improved to help innovate product and service” offerings and find smarter ways of working together. These innovations evolve across organizations regardless of their size and industry. Recently, companies in virtually all industries have launched various initiatives to investigate new digital technologies and exploit their advantages (Matt, Thomas, & Alexander, 2015). Several studies have been conducted concurrently on how digital transformation affects small business performance. This study aims to show the effect of digital transformation on the performance of small and medium-scale businesses in Ratnapura district.

## **02. Research Problem**

There is a significant knowledge gap regarding the level of digital transformation among SMEs, especially in developing countries such as Sri Lanka (Satharasinghe, 2014). SMEs perform important functions in the economy such as job creation and innovation (Braunerhjelm, 2008). However, SMEs are vulnerable and prone to failure (Storey, 1994). One of the main challenges for SMEs is limited resources e.g. Human resources, and capital, which reduce the ability of these organizations to respond to competition and market changes (Toni, 2003). Therefore, the extent to which the business community transforms their businesses into digital technology has become a critical factor in the socio-economic development of a country. There is clear evidence that large-scale business organizations are embracing digital transformation and Fortune 500 companies are placing digital transformation at the center of their innovation strategies (Holtz, 2018). And emerging startups are showing the same trend (Andersson, & M., 2018). However, most studies are practical introductions and descriptive summaries of the DT phenomenon. Due to the lack of large-sample empirical research, it is difficult to verify the universality of relevant factors, their internal mechanism is not clear, and the relationship between these factors is rarely discussed (Zhang, Xu., & Ma, 2022). Sri Lanka as a middle-

income earning (Lakshman, 2019) developing country may not have sufficient resources in finance, information, knowledge, and management skills regarding SMEs, but it is also nowadays among SMEs which can see rapid adoption of DT due to versatility, enables to be more responsive to uncertainty and challenges in the business environment and adapt those changes appropriately. Considering those factors, the problem of this research is to identify, “What is the impact of Digital Transformation on the Performance of SMEs in Rathnapura District, Sri Lanka?”

### **03. Literature review**

#### **3.1. SMEs**

SMEs can be seen as the backbone of the majority of developing countries worldwide. They are businesses that together employ more people than huge corporations while employing fewer workers per organization on an individual level (Erick, 2014). The actions of SMEs posture as a noteworthy source for the growth of an economy in general. SMEs play a crucial part in the creation of jobs, innovation concepts, and creating economic benefits (Braunerhjelm, 2008). Given the importance of the contributions made by SMEs, it would not be inaccurate to claim that they are the foundation of the nation’s economic expansion (Fatoki, 2011) as these businesses frequently contribute to the economy both as independent innovative thinkers and as job creators. Due to their continued importance in generating economic output, especially in light of the recent economic downturn, small and medium-sized enterprises play significant roles in their country’s economy (Omerzel & Antoncic, 2008). Further, as the explanation illustrates, SMEs have a significant responsibility in a growing economy and it always has an impact on the entire community. In a nation like Sri Lanka, SMEs have a lot more duties to fulfill in terms of improving the nation’s economy and standard of living. In Sri Lanka, an SME can be recognized as a business with an annual turnover of less than 750 million rupees, 300 or fewer manufacturing employees, and 200 or fewer service employees. When considering the adoption of digitalization to SMEs, the use of ICT would undoubtedly provide knowledge of information, expertise, better connections with suppliers and customers, better working relationships with SMEs on time, and enhanced cooperation while giving quality of work, growth, and product efficiency (Ensaria & Karabay, 2014).

#### **3.2. Digital Transformation**

Digital platforms are reshaping relationships between consumers, workers, and employers as the silicon chip’s reach permeates almost everything we do, from buying groceries online to finding a partner on a dating site. Computing power is improving dramatically and people around the world are increasingly participating in the digital economy (Muhleisen, 2018). Digital transformation (DT) refers to the adjustments that digital technology brings about or has an impact on throughout all aspects of human life (Stolterman & Fors, 2004). Digital transformation is the profound and accelerating transformation of business activities, processes, competencies, and models to fully leverage the changes and opportunities brought by digital technologies and their impact across society in a strategic and prioritized way (Demirkan et al. 2016) Traditional human behavior is changed by DT, and the digital age becomes a necessary component of 21st-century life. DT is a voyage that doesn't call for a lot of technological use. In the evolving computer economy, DT adaptability offers better ways to monitor market relationships and new arrangements for cooperating (Antlova, 2009). A few

DT tools include the cloud, massive data processing, augmented/virtual reality, additive printing, drones, and robotics. Employer and employee digital literacy, corporate strategies that include digitalization processes, digital customer engagement networks, organizational structure changes, and ICT are among the aspects that are taken into account when determining DT (Schwertner, 2017). It demonstrates that DT goes much beyond adopting a few ICT tools and should be implemented as a corporate strategy while taking into account all of the company's stakeholders. According to (Boersma, 2013) DT has garnered a significant amount of research efforts over the last 20 years but concentrated on the transformation of the organizational theme. Therefore, it is important to consider the sub-factors of employer and employee digital literacy, cost of digital transformation, and the influence of digital strategy on SME performance as well as the direct impact of digital transformation on the performance of SMEs in this study.

### **3.3. Digital Literacy**

A modern skill for information management in the era of digitization is digital literacy. To survive in this contemporary environment, everyone should adopt this art as something that is almost in their blood. Generally speaking, Digital Literacy (DL) is not the ability to use contemporary technology, learn how to use new systems, or even employ gadgets and technologies throughout the learning process (Jordana & Suwanto, 2017), means the ability to interact with technological knowledge with the all five senses of the humans and not just a sequential computer program. According to (Yanti & Yusnaini, 2018) the ability and skills required to access applicable digital technologies and to interact with them in the practical world to make a digital culture can be described as Digital Literacy (DL).

### **3.4. Cost of Digital Transformation**

Previous studies emphasized the value of cost in the adoption and use of technology and found a direct and significant link between cost and technology adoption (Alam & Noor, 2009). Digital transformation is suitable for SMEs due to its low cost, low participation barriers, and low level of IT skills are necessary to use (Derham, Cragg, & Morrish, 2011). According to (Karjaluo & Huhtamaki, 2010), the three key resource-related aspects are human resources, financial resources, and technological resources. A higher adoption rate would result from cost reductions because SMEs could afford them (Chumba, 2016). It is simple to reach globally dispersed markets because of the ICT sector's rapid expansion and falling communication costs (Wolf, 2001). This underlines the importance of the DT and the need for SMEs to control their costs in order to maximize their benefits.

### **3.5. Establishment of Digital Strategy**

An organization's long-term goals, the necessary actions, and the resource allocation for achieving those goals are all part of its strategy (Chandler & Kessler, 1962). Mission statements, mandates, and the identification of core values are all part of the strategy development process. Intermediate managers should be able to translate expectations of the established strategies into realistic activities with the aid of a clear understanding of these parts (Dess, McNamara, Eisner, & Lee, 2018). Additionally, a variety of metrics pertaining to significant individuals and procedures designed to assess the effectiveness of the anticipated outcome are part of the strategy's implementation (Greer, Lusch, & Hitt, 2017). Digital strategy refers to an

organization's common business architecture that has been updated for the current digital era. The digital business plan deviates from the norm in that it goes beyond a transversal approach, traditional functional areas are transcended, and various IT processes enable management and information systems (Bharadwaj, Sawy, Pavlou, & Venkatraman, 2013). As a result, there won't be any differentiation between business strategy and digital strategy, and IT strategy will always be a functional strategy of the latter.

### 3.6. Digital Transformations on SMEs Performance

According to recent studies, digital transformation affects a company's financial performance (Mubarak, Shaikh, Mubarik, Samo, & Mastoi, 2019). Enterprise performance benefits from the adoption of digital transformation (Qing, 2020). SMEs do not experience a significant benefit from digital transformation in terms of both enterprise performance and supply chain integration, and supply chain integration is unable to mediate the relationship between manufacturing enterprises' digital transformation and enterprise performance (Qi, Ligang, & Jianbing, 2021). IT, human resources, and business strategy are three key resources that positively influence SMEs' digital transformation, which in turn positively influences the business outcomes of SMEs (Hai, 2021). The intensity of individual forgetting and the strength of the entrepreneurial attitude both have a positive impact on the dynamic capabilities of businesses. As a result, digital transformation has a positive impact on the dynamic capabilities and innovation performance of businesses (Wang, 2021).

## 04. Research Methodology

### 4.1. Conceptual Framework

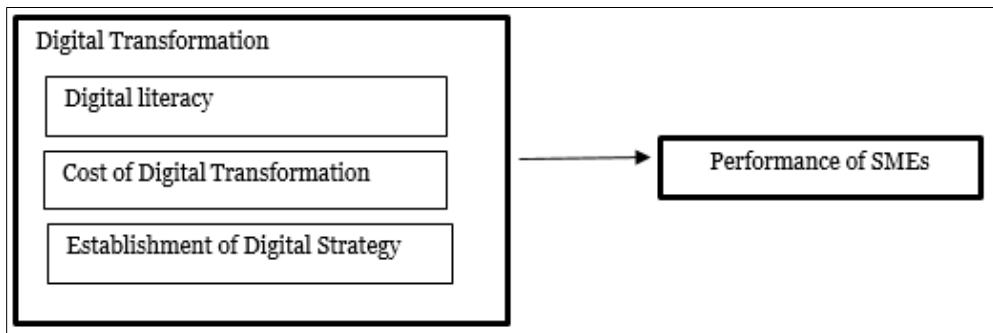


Figure 1: Conceptual Framework

### 4.2. Hypothesis of the Research

Based on the conceptual framework and the research questions of this study following hypotheses are developed to test this study.

H1: There is a significant relationship between Digital Transformation and Performance of SMEs.

H2: There is a significant relationship between Digital Literacy and Performance of SMEs.

H3: There is a significant relationship between Cost of Digital Transformation and Performance of SMEs.

H4: There is a significant relationship between Establishing Digital Strategy and Performance of SMEs.

Table 1: Operationalization of variables

Variables	Dimensions	Indicators	No: of items / questions	References
Digital Literacy	Digital Literacy	You have the knowledge and understanding of digital literacy to run your business.	3	(Stephen, 2010)
		Knowledge of technology and digital literacy is important for sales and promotion of this business.		
Digital Transformation	Cost of digital transformation	Your business has employees who have an understanding of digital literacy for the administration and development of the business.	5	(Perera, 2021)
		The digital transformation of SMEs is expensive in the first step but it will benefit the SME in many ways than its cost.		
		The amount of investment and cost is favorable for running my business with digital transformation.		
		High costs and modern technology threatened the financial side of the business.		
Establishment of digital strategy	Establishment of digital strategy	When the costs and benefits are compared, digital transformation costs are not a barrier to the success of business.	4	(Rassol & Dissanayake, 2019)
		Digital transformation will incur costs like training employees and covering initial costs for my business		
		The business has basic facilities to install modern technology and digital equipment.		
		Adapted the internal environment of the business to digital transformation by using various tactics such as installing basic software and organizing various programs for employee training.		
		Managers in my business managed the time and cost to establish digital strategies well.		
		Digital strategies have positively affected the administrative		

Dependent variable	Performance of SMES	<p>functions and structure of the institution.</p> <p>The competitiveness has been increased among competitors due to the movement of digital transformation.</p> <p>Compared to the previous year, the use of digital transformation has increased the annual sales and overall financial performance of the business.</p> <p>Compared to previous years, business administration and maintenance costs have decreased with the use of digital transformation.</p> <p>Digital transformation increased employee performance and employee productivity of this institution.</p> <p>Adapting to technological advancements is useful to attract more customers to the business.</p> <p>The overall performance of the organization's internal environment increased compared to the previous year due to digital transformation.</p> <p>The organization has a strong customer base and efficient staff to create innovations and growth of the business reputation.</p>	7	(Teng, Wu, & Yang, 2022)
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The process of gathering and interpreting numerical data is known as quantitative research. It can be used to identify trends and averages, formulate hypotheses, examine causality, and extrapolate findings to larger populations. This research was constructed using a quantitative approach. To examine the current view on digital transformation, the quantitative methodology is used based on a hypothetical deductive procedure. The purpose of this study is to examine how digital transformation has affected the performance of SMEs in Sri Lanka's Rathnapura District. The authors were able to identify that there are 11,068 units of SMES registered in the Small Enterprise Development Division of the Rathnapura District in Sabaragamuwa Province of Sri Lanka and it makes up the population of this study (Small Enterprises Development, 2022). The sample is selected from Rathnapura district which registered SMEs under the Small Enterprises Development Division in Rathnapura. According to the purpose of this study, and considering the time and convenience of the research requirements, the sample size selected 100 SMES out of the 11,068 units of registered SMEs in the Rathnapura district. Also, researchers use online surveys for data collection. The sampling was attributed by using a simple Convenience sampling technique. This study is based on both primary as well as secondary sources of information. As with primary information, the main source would be the survey questionnaire. In this research mainly, primary data was collected by a self-developed questionnaire, which allowed for analyzing the impact of Digital Transformation on the Performance of SMEs in Rathnapura District Sri Lanka. The data was collected using questionnaires for this particular research work as it is the easiest as well as the most cost-effective method of obtaining information from SMES in Rathnapura District. In this

study secondary data based such as books, newspaper articles, journals, previous research reports, and reports of the Small Enterprise Development Division (SED) in Rathnapura District. After collecting the data by using a structured questionnaire from the respondents Statistical Package for Social Sciences (SPSS) were used to analyze the data. Also validity and reliability analysis, descriptive statistical analysis, multiple regression analysis, correlation analysis were used to generate the results of this study.

## 05. Data Analysis and Discussion

Table 2: Sample Composition

Category	Subcategory	Frequencies	Percentage
Gender	Male	73	73
	Female	27	27
Age	18-35	94	94
	36-55	3	3
	56-75	3	3
	No formal education	3	3
Educational Level	Up to O/L	14	14
	Up to A/L	70	70
	Degree and above	13	13
Nature of the business	Manufacturing	50	50
	Service	50	50
Stage of the Business	Launch and start up	40	40
	growth	34	34
	maturity	14	14
	decline	12	12
Time period of business running	Less than 1 year	44	44
	1 – 3 years	39	39
	More than 4 to 9	8	8
	Over 10	9	9

The gender distribution of the 100 respondents in the overall sample is shown in Table 4.1, with 73 men and 27 women. The sample statistics showed that the majority of SME entrepreneurs were men. Moreover, Table 4.1 indicate the detailed data information in relation to the age distribution of the sample of this study. In accordance with the data, it was discovered that 94 responses, which are 94%, represent between 18- 25 years of age limit. That represents the height age group of SME entrepreneurs in this study. It is clear that the majority of the enterprise belongs to the young and the middle age in this research. According to Table 4.1, the highest percentage of the respondents are having G.C.E. A/L, and their percentage is 70%. The second percentage of the respondents who have GCE O/L qualifications is 14%. Respondents with a bachelor's degree or higher make up 13% of the sample. In this study, 3% of respondents with no formal education have the lowest parentage. Table 4.1 illustrates the nature of the SME enterprise as well. This study, represents an equal percentage of both manufacturing and service categories in SME enterprises. Further this table can depict the stage of SMEs in Rathnapura District. The launch and start-up category has the highest business running stage, accounting for 40% of the total sample. The second highest is that of growth stage respondents; out of 100, 34 percent were under that. 14% of the respondents in the sample are at a mature stage of business. In this study, 12% of businesses are in the decline stage of operation. Moreover, Table 4.6 shows the time of the business run among the respondents. According to the findings, 44% of those surveyed were younger than 1 year. Furthermore, 39% of SMEs have



1-3 years of business experience. The lowest one is more than 4 to 9 years of business duration. It accounts for 8% of the total sample.

### 5.1. Reliability Analysis

Table 3: Reliability Statistics

Variables	Cronbach's Alpha
Performance of SMEs	0.798
Digital literacy	0.712
Cost of digital transformation	0.804
Establishment of digital strategy	0.879
Digital Transformation	0.889

In this study, all the variables can be accepted statistically based on the Cronbach coefficient values, which all showed good, strong internal consistency (above 0.7). Table 4.2, it indicates the Cronbach Alpha reliability values for every independent and dependent variable in this study. Consequently, four factors have Cronbach's Alpha values greater than 0.7. According to the results of the Cronbach's Alpha test, each instrument's inherent reliability is deemed adequate. Internal consistency and reliability were extremely good for each instrument (alpha). The results show that the performance of SMEs has a high level of dependability. Furthermore, Cronbach's alpha values of all the independent variables, such as digital literacy, cost of digital transformation, and establishment of digital strategy, are 0.712, 0.804, and 0.879, respectively. Thus, all the variables in the research have internal consistency.

### 5.2. KMO and Bartlett's Test

Table 4: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.845
	Approx. Chi-Square	965.822
Bartlett's Test of Sphericity	df	171
	Sig.	.000

Moreover, Bartlett's Test of Sphericity is included in Table 4.3. The estimated Chi-Square value is 965.822. The Bartlett's Test of Sphericity's significance value, p, is 0.000, which is less than 0.005.

### 5.3. Multi-co-linearity Assumption Coefficient

Table 5: Multi-co-linearity Assumption Coefficient for Independent Variables

Model	Collinearity Statistics	
	Tolerance	VIF
Digital literacy	.948	1.055
Cost of digital transformation	.443	2.256
Establishment of digital strategy	.450	2.221

Testing for co-linearity is a good way to identify multiple co-collinear ties between variables in a study. The model's tolerance and VIF standard values are 1.000, according to Hair, Anderson, Tatham, and Black (1995). These values fall within the study criteria's tolerance and VIF upper and lower bounds of  $> 0.10$  and 10, respectively. Studies that meet these criteria for tolerance and VIF values are good and appropriate. Table 4.4 displays the tolerance and VIF number of the independent variables. The independent variable tolerance values are all greater than 0.1, while the VIF values are all less than 5. As a consequence, the distribution of the data is normal.

#### 5.4. Correlational Analysis

Table 6: Correlational Analysis

		DT	CD	ED
CD	Pearson Correlation	.226*		
ED	Pearson Correlation	.190	.741**	
OP SMEs	Pearson Correlation	.329**	.684**	.672**

The correlation study evaluates how closely the independent and dependent variables are related. Priority should be given to the Pearson correlation value and the significant value obtained from the correlation study. In this study Digital transformation, significant value is 0.001, and the person correlation value is 0.329 and positive. The person correlation value is near 0, and the significant value is less than 0.05. Therefore, there is a weak significant relationship between environmental scanning and company success. The second independent variable of the Cost of digital transformation value is 0.684 respectively, and the significant value is 0.000. Furthermore re, the third variable of the Establishment of digital strategy person correlation value is 0.672 and the significant value is 0.000. The person correlation numbers, on the other hand, are nearly 1. As a result, there is a significant strong correlation Establishment of digital strategy and performances in SMEs. However, the person correlation numbers are nearly zero. As a consequence, there is weak connection between Digital transformation and the performance of SMEs.

#### 5.5. Multiple Regression Analysis

Table 7: Model Summary (Digital Transformation)

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.717 <sup>a</sup>	.513	.508	.34928

Table 4.6's adjusted R-square value for the study, which stands for the variation in the influence of digital transformation on the performance of SMEs, is 50.8% (0.508). 49.2% of the performance of SMEs is affected by outside variables.

Table 8: ANOVA (Digital Transformation)

Model	Sum of Squares	df	Mean Square	Sig.
Regression	12.616	1	12.616	.000 <sup>b</sup>
Residual	11.956	98	.122	

Total	24.571	99
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To determine statistical significance, an ANOVA is used. A value is considered significant in the model if its significance is lower than 0.05 and insignificant if it is higher. The table indicates that the number's significance is less than 0.05. (0.000).

Table 9: Coefficients (Digital Transformation)

Model	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	Beta	
(Constant)	1.238	.282		.000
Digital Transformation	.710	.070	.717	.000

H1: There is a significant relationship between Digital Transformation and Performance of SMEs.

The findings of Table 4.15 show that the digital transformation P value is 0.000. The digital transformation has a significance value of less than 0.05. The digital transformation and performance of SMEs are significantly related. Digital transformation, on the other hand, has a beta value of 0.717, which is a positive figure. Digital transformation, therefore, has a strong and significant relationship with the performance of SMEs. Finally, the initial hypothesis of this research is accepted.

Table 10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.747 <sup>a</sup>	.558	.544	.33639

According to Table 4.9, the adjusted R square value is 0.544 at the 0.000 level of significance, suggesting that the independent variable of Digital literacy, Cost of Digital Transformation and Establishment of Digital strategy has a 54.4% effect on the dependent variable of performance of SMEs.

Table 11: ANOVA

Model		Sum of Squares	df	Mean Square	Sig.
1	Regression	13.708	3	4.569	.000 <sup>b</sup>
	Residual	10.863	96	.113	
	Total	24.571	99		

An ANOVA is employed to ascertain statistical significance. In the model, a value is insignificant if its significance is higher than 0.05; it is significant if it is lower than 0.05. The significance of the number is less than 0.05, according to the table.4.10 (0.000).

Table 12: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	Beta	
(Constant)	1.210	.272		.000
Digital literacy	.114	.045	.176	.013
Cost of Digital Transformation	.318	.085	.380	.000
Establishment of Digital Strategy	.284	.080	.357	.001

As shown in table 4.11, Digital literacy, Cost of Digital Transformation, and Establishment of Digital strategy have a strong and significant effect on the performance of SMEs in Rathnapura district. According to Table 4.11, the high influence dimension is the Cost of Digital Transformation to the performance of SMEs, because the regression coefficient (b) is 0.380 and the significant value (0.000) is less than 0.05. It can be concluded that this dimension has the greatest impact on the performance of SMEs in the Rathnapura district. The beta value with the lowest impact is 0.176; it is Digital literacy, and that dimension has a significantly low effect on the performance of SMEs. The overall result of each independent dimension of DT has a significant positive impact on the performance of SMEs at the 99% confidence level.

## 5.6. Hypotheses testing

H2: There is a significant relationship between Digital Literacy and the Performance of SMEs.

According to the researcher's results, digital literacy and performance in SMEs are significantly correlated. A significant value of less than 0.05, or a p-value of 0.013, was obtained from the regression analysis of the two variables, "digital literacy" and "performance of SMEs." The standardized factors' beta value is 0.176, which is a positive number. Therefore, the development of digital literacy and the performance of SMEs is positively and significantly related. Finally, the study's second hypothesis is confirmed.

H3: There is a significant relationship between the Cost of Digital Transformation and the Performance of SMEs.

The findings of Table 4.11 show that the cost of digital transformation has a significant value of 0.000. The cost of digital transformation has a significance level of less than 0.05. The performance of SMEs and the cost of digital transformation are significantly correlated. On the other side, the cost of digital transformation has a positive beta value of 0.380. As a consequence, there is a positive and significant correlation between the cost of digital transformation and the performance of SMEs. Finally, the third hypothesis of this research is verified.

H4: There is a significant relationship between Establishing Digital Strategy and the Performance of SMEs.

According to the researcher's results, establishing a digital strategy and the performance of SMEs are significantly correlated. Two variables—Establishing Digital Strategy and

Performance of SMEs—were subjected to regression analysis, and the results showed a significant value of less than 0.05 or a p-value of 0.001. The standardized factors' beta value is 0.357, which is a positive number. Thus, there is an association between establishing a digital strategy and the performance of SMEs that is both positive and significant. The fourth hypothesis of this research is finally accepted.

## **06. Discussion and Future Implications**

For this study, Selected 100 responses were obtained from the selected geographical locations in the Rathnapura District. The researcher selected 100 SMEs for data collection purposes. The information regarding the Socio-demographic characteristics of the researcher includes the information in following: age, education level, gender, nature of business, the current stage of the business, and time period of the business. In this study, the gender distribution is not equal according to the descriptive analysis done in the previous chapter of this study. The findings show that the majority of SME entrepreneurs were men (73%). Furthermore, the findings reveal that the majority of the respondents were of years between 18-35. On the contrary, an equal number of respondents belongs to the age of 36-55 years and 56-75 years. The education level of the selected SME owners for this study is at a satisfactory level as 70% of the total number of respondents were educated up to G.C.E. A/L. Only 3% of respondents didn't have a formal education. In the study, 50% of the SMEs were manufacturing businesses, while also another 50% were service businesses. Considering the current stage of business, a total of 40% of SMEs were launch and start-up stage, and only 12% of businesses are in the decline stage. Considering the business period of the business running a total of 44% of SMEs surveyed were younger than 1 year and also more than 4 to 9 years running SMEs are only 8%. According to the demographic analysis, it is clear that the sampled SMEs were new businesses with launch and start-up stages running. With this in mind, the study envisaged gaining better knowledge about whether the impact of digital transformation affects business performance in SMEs. Table 4.9 illustrates the results of regression analysis regarding the impact of digital transformation on SMEs' performance. Table 4.9 displays the value of  $R = .747$  and R Square amounted to .558, which suggests that digital transformation has a 54.4% effect on the dependent variable of the performance of SMEs. According to the study, digital transformation is also significantly affected by the performance of SMEs in the Sri Lankan Context.

## **07. Conclusion**

In today's world, the adoption of digital transformation by businesses is unavoidable. Large organizations, as well as SMEs, are the primary users of digital transformation. The main objective of this research was to find out the impact of digital transformation on SMEs' performance in Rathnapura District. To investigate this impact, research has selected 100 SMEs who are registered under Small Enterprise Development Division in Rathnapura District selected areas as the sample. Through this study, authors were able to recognize there is a positive and significant impact of Digital Transformation, Digital Literacy, Cost of digital transformation, and the Establishment of digital strategy, which influences the performance of SMEs. In addition, the researcher investigates the impact of each dimension of the independent variable of digital transformation. The results discovered that the degree of digital transformation, digital literacy, cost of digital transformation, and establishment of digital strategy make a significant positive impact on SMEs' performance.

## 08. Limitations and Future Research

It is evident from the findings that digital transformation significantly affects the business performance of SMEs. However, in this study, a tiny sample of the population was contrasted with the total population. A larger study with a larger sample size should be conducted by additional researchers in order to avoid the far-reaching effects of generalization issues. Additionally, the study advises employing a variety of digital transformation factors to examine the relationship between corporate success in future research. The findings may not be applicable in other regions of the country since digital transformation and corporate performance vary with different cultural backgrounds, socioeconomic situations, nature of the business, and restricted rationality. In order to determine how empirical data differs from that from the Ratnapura area, future research should be carried out in a different region of the nation with a different cultural and socioeconomic context.

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