

Impact of Financial Transparency on Organizational Performance of Small and Medium Enterprises in Kandy District of Sri Lanka

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Abstract

Financial transparency plays a vital role in modern corporate management, particularly within Small and Medium Enterprises (SMEs), where efficient and transparent financial practices are essential to access limited resources and capital. Therefore, this study aims to examine the impact of financial transparency on the organizational performance of SMEs in the Kandy district in Sri Lanka. While previous studies have largely focused on Colombo district which has the largest number of SMEs in Sri Lanka, this study centers on Kandy district, which has the second highest SME concentration in the country. The study investigates three main dimensions of financial transparency: quality standard, management control system and auditing & compliance. A quantitative research approach was adopted, using primary data collected through a structured online questionnaire distributed to a randomly selected sample of 137 SMEs operating in the Kandy district. Data were analyzed using descriptive statistics, correlation analysis and multiple regression analysis with SPSS software to evaluate the relationships among variables. The findings reveal that quality standards, management control systems and auditing & compliance all have a positive impact on organizational performance. This study contributes to the broader field of organizational performance by highlighting the importance of financial transparency in the SME context of Sri Lanka. It reinforces the significance of transparent financial reporting and robust internal control mechanisms particularly in economically vital yet underrepresented regions such as Kandy. Future research should consider adopting a mixed methods approach and expanding the geographical scope to enhance generalizability and deepen understanding of the relationship between financial transparency and SME performance.

Keywords: auditing and compliance, financial transparency, management control system, organizational performance, quality standard