

Impact of Digital Transformation on Business Performance of SMEs in North Western Province of Sri Lanka

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Abstract

Digital transformation has become an essential driver of competitiveness and sustainability for small and medium-sized firms (SMEs), especially in developing countries where resource restrictions and technical gaps exist. This study evaluates the impact of three key variables: compatibility, cost-effectiveness, and interactivity on the business performance of SMEs in North Western Province, Sri Lanka. The objective is to empirically examine the extent to which these factors impact performance as measured by financial growth, operational efficiency, customer satisfaction, and market competitiveness. Primary data were collected from 325 SMEs using a structured questionnaire, and the results were analysed through descriptive statistics, correlation, and regression techniques. The findings indicate that all three dimensions have a statistically significant positive impact on business performance, with interactivity emerging as the strongest predictor, followed by compatibility and cost-effectiveness. This shows that SMEs achieve better performance by enhancing digital interactions while ensuring solutions remain compatible and cost-effective. This study addresses a gap in the literature by providing evidence on three under-researched digital transformation factors in SMEs within a developing country. In practice, the findings highlight the need for policymakers and SME owners to align digital transformation strategies with operational realities, improve digital literacy, and strengthen regional digital infrastructure in order to maximize performance outcomes and ensure long-term growth in a competitive environment.

Keywords: business performance, compatibility, cost-effectiveness, digital transformation, interactivity