

The Impact of Digital Transformation on Small and Medium Enterprises Performance in Sri Lankan Hotel Industry

Heshan Jayathissa¹, Shehani Joseph², Thisal Yatawara³, M.G. Tharaka Nayanapriya⁴

Department of Management, NSBM Green University Town, Mahenwatta, Pitipana, Homagama, Sri Lanka^{1,2}

Department of Marketing and Tourism, NSBM Green University Town, Mahenwatta, Pitipana, Homagama, Sri Lanka^{3,4}

*wghkjayathissa@students.nsbm.ac.lk¹, shehani.j@nsbm.ac.lk², thisal.y@nsbm.ac.lk³,
tharaka.n@nsbm.ac.lk⁴*

Abstract

The aim of this research is to study how digital transformation effects the performance of small and medium enterprises in the hotel industry in Sri Lanka. This research makes an in-depth evaluation of the business performance effect taken about by digital tools and methods regarding compatibility, cost-effectiveness, trust, and interactivity

The approach applied in this study is quantitative, wherein the survey methodology is applied to gather data from 100 SMEs located within the Colombo district. The findings show that compatibility and cost-effectiveness have a high positive influence on SME performance, while trust and interactivity are of lower importance. This paper identifies that integration of digital technologies is therefore beneficial to the performance of SMEs in the hotel sector but with some costs and adaptation challenges. Hence, the findings bring into focus that there exists a need for digital upgradation of infrastructure in SMEs and engaging with customers effectively by using digital tools in a more enhancing manner.

The study develops existing literature by providing an investigation of how digital transformation affects business performance in the hospitality industry. It is also of great use to policymakers and industry practitioners who strive for additional means to help improve competitiveness and operational efficiency..

Keywords: Business Performance, Compatibility, Cost-Effectiveness, Digital Transformation, Sri Lankan Hotel Industry, SME, Trust, Interactivity.

1. Introduction

The digitalization of hotels in Sri Lanka refers to the infusion of digital technologies at every business touchpoint. In fact, SMEs of this industry face many effects due to resource limitations, increased competition, and technological barriers (Masoud & Basahel, 2023). SMEs barely have any significant opportunity to expand their businesses due to the limited technology adoption, though they contribute immensely to the national gross domestic product (Fan et al., 2022). Their competitive advantage is reduced within the digital world, and it offers different kinds of opportunities in the scope of digital transformation (DT) for SMEs as operational efficiency improvement, customer service engagement, and strategic management (Kitsios et al., 2023). Online reservation systems, social media marketing, and the use of customer relationship management systems are among the instruments setting the pace in how hotels interact with their clients and internal processes (Zartis Team, 2019). However, their adoption by SMEs within Sri Lanka's hotel industry shows a huge give out from reasons to do with cost, lack of expertise, and resistance to change (Phiet, L. T, 2024). It then shows how this research can be integrated with compatibility, cost-effectiveness, trust, and interactivity into digital transformation to shape the performance of SMEs within the hotel sector in Sri Lanka (Jayalath & Premaratne, 2021). The study thereby contributes to the growing debate on the role which digitalization plays in the growth of the SMEs, and particularly those in the developing markets such as Sri Lanka (Dissanayaka, 2017). This will further apply to any other future research on SME digital transformation in other industries and regions. In contrast to other studies that concentrated on established markets or big hotel chains, this study fills the gap by looking at the issues unique to SMEs, making useful suggestions for appropriate, reasonably priced digital technologies, and recommending legislative support. While studying the impact of digital transformation on the performance of small and medium-sized businesses in Sri Lanka's hotel sector is the overall aim of this research, the following includes a breakdown of the research questions.

Research Questions:

- To which extent does compatibility impact small business performance?
- To which extent does cost-effectiveness impact on small business performance?
- To which extent does trust impact small business performance?
- To which extent does interactivity impact small business performance?

Objectives:

- To identify the impact of compatibility on small business performance.
- To identify the impact of cost-effectiveness on small business performance.
- To identify the impact of trust on small business performance.

- To identify the impact of interactivity on small business performance.

2. Literature Review

For the theoretical framework of this study on the impact of digital transformation on small and medium-sized enterprises (SMEs) in the Sri Lankan hotel industry, two primary theories will be employed: While considering the current state and validating all the hypotheses, TAM and RBV are included.

Technology Acceptance Model (TAM): An organized framework for conducting a scientific analysis of research issues pertaining to technology adoption is offered by the Technology Acceptance Model (TAM) and it is built on the Theory of Reasoned Action (TRA) to gauge how people feel about new technology (Davis, 1989). For the SMEs in the hotel industry, there will be a frame to be developed where they can list the factors that will dictate the use and adoption of the DT plans. This understanding pertains well with the tenets in TAM that feel that performance can be enhanced through digital technologies and that it is quite easy to accomplish. Going further in analyzing the SME's perceptions regarding digital development, their strategies and the plans and concepts they aim to put into practice to integrate new technologies may help reveal the cause as well as the challenges that affect the technology acceptance in Sri Lankan hotel industry.

Resource-Based View (RBV): Although Porter places a strong emphasis on a company's internal resources and competencies, he also takes into account the external environmental elements that determine performance and competitiveness (Fan et al., 2022). In the framework of this research, RBV is a theoretical lens that is used to theoretically describe how SMEs from the hotel industry are theoretically capable of strengthening their strategic assets and competitive advantages by enhancing the usability of digital technologies (Huang, 2023). Due to the investigation of the available information systems, software, and other related online platforms of the SMEs, RBV identifies the extent to which digital transformation supports resource accumulation and achieves the perfect competitive advantage. Furthermore, the model embraces the idea that the routines and capabilities of organizations are widely significant in utilizing digital assets and directs attention towards the management activities and organizational dynamics that promote digital conversion in SMEs. They have supported this framework with a blend of TAM and RBV while providing a vast viewpoint of the influential variables in the delivery and utilization of SMEs incorporated in the Sri Lankan hotel industry digital innovation and the effects of digital transformation on the performance and competitive advantage of the SMEs.

2.1 Digital Transformation

In the present evolutionary business environment, digital transformation has become a vital process to develop competitiveness, operational effectiveness, and customer interaction for SMEs. Broadly,

digital transformation may be described as the process through which digital tools are incorporated into all parts of a firm's value creation and delivery process, customer affairs and market relationships (Vial, 2021). This evolutionary process covers the implementation of technological solutions like cloud computing, advanced data processing, IoT, and blockchain that help SMEs to develop, optimize, and adjust to the relevant market conditions.

The meaning at variance in a general sense and emphasis of the term 'digital transformation' complements academia. As pointed out by Verhoef, Langedijk & Gahr (2021), Digital Business Strategy refers to the leveraging of digital technologies with the aim of increasing organizational performance and market coverage, while stressing operation efficiency and customers' experience. Nadkarni and Prügl (2021) build on this definition by defining digital transformation as the ultimate state of digital development within an organization. They emphasize its penetration into key business processes and activities that make up the very core of modern organizations, which means a transition to data-driven decision-making and increased business/organizational adaptability.

Technology enablers are fundamental to the SMEs' digitization process and have a big impact as catalysts in the digital change process. This is self-evident when considering recent advances of cloud computing that provides SMEs with scalable infrastructure and computing power on demand to deploy and manage applications without a significant commitment in own hardware infrastructure (Mergel et al., 2019). It can be noted that this flexibility also helps to keep the IT expenditure low while also increasing the flexibility of operation by being able to scale up, and access higher tiers of business analytics quite easily. Further, big data analytics put into the capability of the SMEs to draw out valuable information from large data sets to assist in decision making and interact with customers in a more individualized manner (Acquila-Natale et al., 2022). SMEs can now implement the use of AI and machine learning where it can be able to automate certain processes in order to make predictions about the consumers and to also be able to allocate its' resources in a way that it becomes more efficient and able to compete for the market.

Another disruption that entails linked tangible objects, and collecting data on the Internet of Things (IoT) enables SMEs to observe operations, stock, and assets from a distance. IoT helps to expand the level of visibility of the supply chain and operability that consequently results in better decisions and optimal costs. Blockchain technology provides unaltered transactional environments and, therefore, increases trust and effectiveness in areas such as the financial sectors, product distribution, and identification services (Gong & Ribiere, 2021). Blockchain technology can be used by SMEs to transform transaction processes, minimize fraud incidences, and increase credibility of records kept in the system.

IT adoption results in various advantages for the SMEs relating to several aspects of business performance. On the operational level, digital technologies facilitate the management of processes as

well as enforcing them by avoiding repetitive functions while achieving a rational allocation of resources, thus enhancing productivity and minimizing costs (Wessel et al., 2021). For example, digital inventory control deters manual mistakes in procurement procedures and helps expedite the SME's operations so it can meet customer needs without interruptions. Customer engagement and experience is also improved through DT activities. Using digital marketing tools, social media, and relevant personal customer interactions, it is possible to fine-tune the offering against customers' desires and needs at least in part SMEs can effectively survey the customers in real time (Reis et al., 2018). SMEs leveraging on regular customer interaction and Omni-Channel, organizations establish a more enriched bond with their clients hence gaining competitive advantage in laboratory markets. Hence, market competitiveness is indeed double boosted by digitalization since competitive SMEs can transform and innovate quickly to launch new products/services and venture into new markets (Gong & Ribiere, 2021). By using digital platforms, it is much easier for the SMEs to enter the international market by leveling the competitive unfair playing ground with the large conglomerates. Furthermore, skills increase digital responsiveness as SMEs are portrayed as flexible players capable of quickly responding to industry changes and consumers' needs.

As it has been seen, digital transformation is one of the most effective ways of achieving growth in business, but at the same time, it has certain barriers and issues for SMEs. Technology continues to be a key issue because most SMEs report often a lack of technological foundation and technical skills to facilitate and support advanced technological solutions (Dressler & Paunovic, 2021). Lack of funds and resource drawbacks do not allow organizations to invest in improving technology and teaching employees related matters, setting back digital transformation projects. This unfolds as augmentation of operations and visibility in cyberspace leads to cybersecurity becoming a topical matter for SMEs. The increasing threats such as data leaks, ransomware attacks, and phishing scams are potentially dangerous to SMEs, and their information and customers' trust (Fletcher & Griffiths, 2020). That is why the focus has been on strong cybersecurity and adherence to data protection legislation to shield business operations from disruptions and retain investors' trust. Culture and change management are also issues related to the digital transformation of an organization in the context of SMEs. Some of the challenges that organizations face while implementing new technologies include resistance to change, several employees may also lack adequate digital skills, and the leadership may not support the implementation process fully (Dressler & Paunovic, 2021).

2.2 Factors considered for Digital transformation by Small and Medium Enterprises

Business may now be conducted from anywhere at any time through internet enabled forms of communication (Schaller, 2018). Several studies that looked at how small and medium-sized enterprises (SMEs) use Facebook found that Facebook was being used for a wide range of

organizational purposes, including but not limited to: The today businesses need a lot from brand promotion, communication, selling, marketing, creativity, solving issues, customer service, human resources management, information technology, changing organization culture and advertising on social media platforms (J, 2020). According to Henderson, (2020) communication and cooperation among the employees and with the consumers are conducted through social media platforms such as Facebook for SMEs. Research by Metawa et al. (2021) revealed that business innovativeness, age of the managerial figure, and geographical location decisively influenced the SMEs' use of Twitter. Dressler & Paunovic, (2021) posit that several medium-sized business establishments (SMEs) will engage in social media if only entrepreneurial social media platforms furnish massive amounts of on-time, pertinent, and quality content (2011). Although earlier research has determined more criteria affecting SM adoption, only compatibility, cost-benefit, trust, and interaction (Berman et al., 1999) needs to be pointed out. Here is the breakdown of the connection of each party.

2.2.1. Compatibility

Compatibility continues to be a key component for the continuous advancement of the digital transformation plans that span across industries as they embark on new ways to create, implement and deliver value propositions that meet the needs of the contemporary marketplace. While organizations are aiming at finding the potential to enhance growth through the use of technology the concept of compatibility becomes one of the critical success factors. Thus, compatibility speaks about the possibility to incorporate new digital solutions into the existing business environment. This integration is also strategic in a way that it does not create a lot of disturbance while at the same time improving productivity because the use of resources is properly coordinated. For example, IoT integration with manufacturing systems in relation to older production equipment enables monitoring and prognostics, resulting in minimized downtimes and higher system efficiency. However, as far as theoretical contributions are concerned, compatibility can be considered the key factor that improves customers' experience and their levels of engagement. Use of modern tools that are integrated with CRM systems helps personalize customers' interactions and develop marketing initiatives that are based on real time data. But this capability not only improves customer satisfaction and retention, which in turn transforms into customer loyalty but also improves the direct revenues.

Also, compatibility encourages innovation within organizations due to implementation of new technologies. Compatibility-oriented businesses are also in a position to shift organizational strategies according to consumers' new attitudes and trends in the fast-moving digital environments, displacing competitors. For instance, grocery stores, clothing chains, and other compatible retail stores can easily introduce new payment processors or mobile commerce solutions that are in demand with the help of compatible e-commerce trading platforms. It is thus important to stress that effective compatibility goes beyond systems' technical compatibility and includes issues such as data fusion and decision

making. This flexibility allows organizations to obtain a shared view of data and drive the strategies and operations that make up an organization. This provides the leaders with a way of making holistic and almost real-time decisions by analyzing all the data available. However, attaining compatibility proves to be problematic, albeit with possible solutions more so in large IT systems where one finds fragmented old systems and technological heterogeneity. Matters like compatibility, data integrity, and legal requirements depend on careful planning and spending more in proper integration architecture. However, organizational resistance to change and culture may become the main factors affecting adoption, proven strategies for change management and the involvement of stakeholders are required.

This is expected to continue as businesses progress in digital transformation to rely heavily on interconnected digital applications. Thus, the focus on compatibility requirements in the near future will be challenged by such technologies as cloud computing, artificial intelligence, AI- driven analytics, and block chain, etc. The aggregation of compatibility anomalies and the recognition of radical technological changes will enable the organizations, who are successfully overcoming compatibility issues, adjust to the emerging market tendencies and achieve effective business results. Thus, compatibility remains a main component for the implementation of digital measures that add new value to enterprise processes, improve customers' satisfaction, and stimulate innovation. Therefore, holistic and systematic use of information technologies with respect to business strategies and development of organizational culture that embraces change and experimentation allow for managing difficult situations and taking advantage of new opportunities that are arising in a global interconnected economy.

2.2.2. Cost Effectiveness

Cost Effectiveness is one of the major factors whose consideration determines the use of ICT and digital technologies, especially for SMEs because of the limited capital and challenges posed by restricted funds as well as optimal resource allocation. The cost analysis presents interesting findings relevant to the relationship between technology adoption and firms' growth and competitiveness. However, studies state that the cost of adopting technologies plays a crucial role in defining the involvement of SMEs in the supply of technologies (Kuntsman & Arenkov, 2019). Easy to adopt and capital-intensive technology solutions that include cloud and subscription-based models are appealing to SMEs (Sandu and Voiku, 2019). These options therefore allow the SMEs to enjoy superior IT abilities that they would otherwise be unable to afford on account of the initial capital required in the acquisition of such structures. The cost issue has a direct bearing to the feasibility and possibilities of digital change endeavors in the context of SMEs. Several investigations have revealed the issue of high initial costs as well as the contingent maintenance costs with regards to discouraging new technologies among SMEs (Alshakhshir & Howell, 2021). On the other hand, accessible digital tools strengthen the

SMEs' position by automating processes, increasing efficiency, and identifying innovative growth doctrines that guarantee stability and profitability (Sandu & Voiku, 2019).

Studies also show that SMEs' perception of cost-benefit differs depending on the region and the sector where the organization belongs to. For example, a study conducted on Malaysian businesses reveals that the perceived costs of adopting internet technologies influence the SMEs' use of internet and their online marketing plans (Alshakhshir & Howell, 2021). On the other hand, and as deduced by Panel (2002), it could be seen that cost is not always the only condition that defines the readiness to adopt a given technology in all aspects. Concerning the concept of cost efficiency when implementing ICT (Information and Communication Technologies) among SMEs, it is essential to distinguish between its scope, industry specifics, and strategic objectives (Gluhov & Skiba, 2022). While some of the SMEs might regard ICT adoption costs as expensive, others have understood that there are long-term returns and portability linked to information entrepreneurship projects. Thus, the lack of perceived costs can be addressed by proper and concise conveying of these advantages and the correspondence of the applied digital resources with the goals of the enterprise.

Social networks offer quite a convincing list of advantages for SMEs searching for affordable opportunities to engage in digital promotion. Marketing through social networks, means for communication with customers, and advertisement intentions help the SMEs to reach their target group directly and effectively with a comparatively low cost when compared to other more conventional methods of adverts (Panel, 2002). Aside from the increased reach, convenience escalates timely responsiveness and customer engagement translating to brand promotion and advocacy. Technology cost remains a critical component that influences the SMEs for purposes of efficiency in adopting technology as a tool of business transformation. In this context, affordable digital solutions aligned with the SMEs' needs and abilities would help eliminate the financial barriers to address competition and exploitation of business opportunities inherent in the new digital economy. It is crucial to note that strategic planning, monitoring and reviewing the costs forming the basis of digital change alongside the benefits accrued, and the readiness to embrace further change by adopting emerging technologies create the competitive edge SMEs require when planning on capturing the highest value from their change investments and subsequently, sustainable business growth.

2.2.3. Trust

Trust is central as far as the adoption and efficient use of technologies that are digital in the context of technological convergence for small and medium enterprises, and their engagements on social media platforms. Recognizing the concept of trust as complex is a fundamental point when entering the web environment to develop long-term relationships with stakeholders for SMEs. Trust in digital settings can be described on the basis of various theoretical models that focus on the institutional aspects of trust, Gábor (2019) divided institutional trust into two types; "situational normality and structural

assurances”. Situational normality has to do with the belief that goals are achieved through digital platforms within normal expectations. On the other hand, structural assurances are the certainty of positive results because of signed assurances, rules and regulations within the digital environment. For the SMEs, this framework enables them to evaluate the reliability and boundary conditions of the digital media, especially the media used for business such as social media. To replace it Mahmood (2016) suggests the term “informational trust” – this TRUST is based on users’ confidence in the trustworthiness of information. With regards to platforms like Facebook, informational trust determines engagement and use of the platform (Faruquee et al. , 2021). To achieve these goals, SMEs using SM for business purposes rely on informational trust that is the provision of correct information concerning the offered goods and services, quick replies to consumers’ requests, and the establishment and boosting of the level of credibility with the target audience among other things (Kozhevnikov & Korolev, 2018).

SMEs must cultivate positive relations with their customers, hence the efficient use of social media tools in the business. Sites such as Facebook are strategic ways through which SMEs can market their products, give out information about products that are new in the market, and even communicate with clients in real time (Kozhevnikov & Korolev, 2018). Thus, adopting an effective social media communication strategy, SMEs can improve customers’ trust due to clear information sharing, prompt response to the feedback, and equally valuable and frequent content delivery. As the opportunities for SMEs to communicate with the customers using digital platforms are vast, there are quite relevant dilemmas associated with trust. Some of the challenges include the privacy and security of data, hacking, fake news, among others that are likely to decrease trust in digital interactions (Chen et al., 2023). Challenges are something that SMEs must face and respond to, multilayered security, data protection Act, and ethical aspects of the digital community should be met and responded to accordingly.

The concept of social media marketing goes beyond just the distribution of marketing messages on appropriate social media websites. SMEs’ audience should trust the organization and its representatives, and this can be achieved by frequently responding and interacting with customers through quick replies and sincere interaction (Kozhevnikov & Korolev, 2018). It also contributes to the establishment of a relationship between the customer and the SMEs thus developing brand association and improving the SMEs’ stand in some of the most volatile markets. Digital technology and platforms rely on the trustful environment for SMEs which want to use digital transformation as a tool for development. Thus, by considering the models of institutional trust, focusing on informational trust, and using social media in the right way, SMEs can build a positive and long-term customer and stakeholders’ trust. People’s trust guarantees high customer interest and SMEs’ longevity in the digital environment where corporate reputation and reliability matter. Therefore, the establishment of trust

still persists these SMEs' digital outlook and business continuity plans as they adapt to the ever-changing digital environment.

2.2.4. Interactivity

Some of the key concepts focal to the understanding of user experience and interaction and particularly on Facebook consist of interactivity in the digital. It extends from the usability of interfaces to the ways people engage with and co-interact with content and brands, as well as other users. The first advantage of enhancing interactivity is improved engagement since interactivity directly involves users. These include Facebook where people are able to have direct interaction and instant feedback through features such as comments, likes, shares, and live streaming. These features do not only enable users to have voice in expressing their opinions, but also compel them to engage with others, share posts with their friends, and be part of the community. The concept of interactivity helps the users to feel the presence of other like-minded individuals. It changes social networking sites from tools for mere viewer consumption into experiential arenas for people to communicate and relate. When interactivity is done properly in business, they create a strong bond or a community of users that have a feeling of belonging to related brands.

Some of the benefits of the Website include Interactive portions that allow users' tailored experiences. Many platforms can therefore provide customization features through which users can express specific interests or engage in polls to get content that they want. This personalization not only increases user satisfaction but also improves the effectiveness of marketing communication, since the marketing messages provided can be customized according to the interactions of users. Another major benefit associated with interactive platforms is the fact that they allow feedback to be obtained immediately. Companies can track user activities, number of clicks, and other activities to learn more and more about the users and their tendencies. It is useful in honing the marketing strategies, enhancing the products or services and in being sensitive to dynamics in the market. Facebook in particular plays a critical role in marketing as interactivity helps in raising company awareness and engaging consumers.

Thus, interactivity has several advantages, yet it entails several risks, including content moderation, privacy concerns, and maintaining genuineness. Companies have to manage these issues while using the interactive elements appropriately to gain the users' trust and credibility. The interactive features on these platforms will be enhanced by other technologies such as augmented reality, virtual reality, and artificial intelligence. These technologies will lead to more interactive and individualized experiences, thus improving levels of user participation and the overall approaches to digital marketing. Interactivity, especially on Facebook, is not only about the tools but about relations, experiences and business benefits. When approached methodically, interactivity can generate engaging content, foster vibrant communities, generate insights, and help companies stand out in crowded digital

spaces. Thus, interactivity will remain a critical component of the future development of technology in the communication and engagement processes.

2.3 Literature Gap

The literature review highlighting gaps in understanding interactivity in digital platforms especially in Facebook and equally related platforms also shows a number of areas that require further empirical investigation and study. Despite modern research emphasizing the importance of interactivity for the improvement of user experience, such as increased involvement and personalization, little is known about the effects of new technologies. Ideas for future research could explore how new technologies such as AR, VR, and AI can improve social media interactivity. Recognizing these technologies' capacity for bringing rich user experiences and increasing engagement levels could be helpful in designing platforms and approaching its users. The second major gap that exists is cross cultural factors. The vast majority of these studies rely on samples from Western countries or reference global tendencies, failing to account for cultural variation in users' behaviours and their expectations towards the interactivity of objects.

Further, culturally inclusive studies on how cultural differences impact the use and perception of interactivity, privacy, and engagement on platforms such as Facebook would be useful in pursuing culturally sensitive digital marketing strategies. It is paramount for firms that are immersed in various international markets to enhance their interactivity methods. Secondly, there is a call for cross-sectional studies where one monitors the changes in the user engagement and interaction levels. Since many of the current studies are cross-sectional, the observed behaviour patterns reflect only the current state of affairs. Panel studies may show patterns of implementing new forms of interactivity, shifts in users' preferences, and the effects of platform modifications or changes in algorithms for user enjoyment and engagement. Such studies would provide a much more sophisticated understanding of the processes occurring in digital communications and how companies are able to respond in order to stay relevant.

Another weakness that can be highlighted for further research is the lack of ethical concerns with regard to digital interactivity. Given that digital platforms continue to gather user data and deliver highly targeted content, specific ethical concerns such as data privacy, informed consent, and algorithmic discrimination also emerge. Further research may examine how companies and platform vendors deal with such ethical issues for more openness and credibility in online interactions. It is crucial to comprehend the potential ethical issues when designing such features to enable the creation of a series of guidelines and measures aimed at enhancing user protection and fostering trust in the long run among the target consumers.

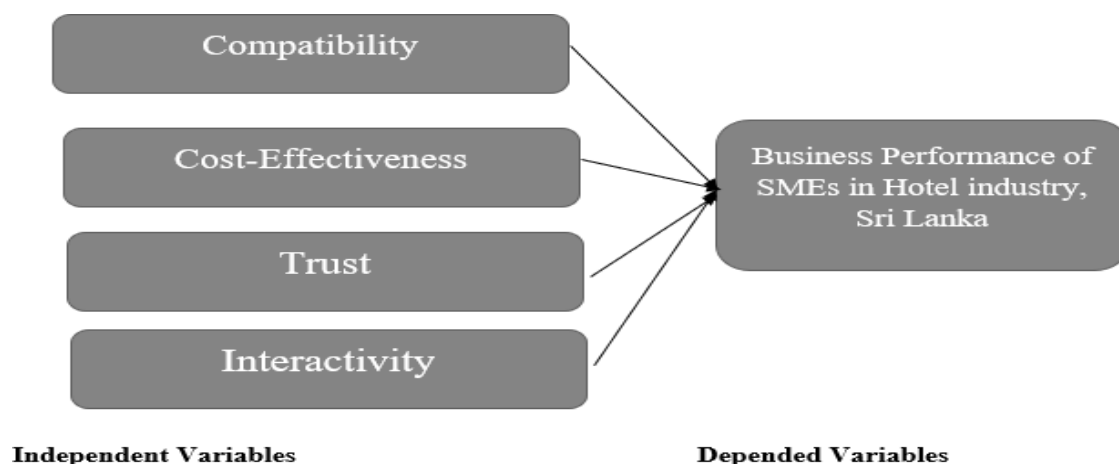
Further, although there is literature on the effects of interactivity on visibility and customer involvement, there is a lack of information on its effect on brand trust and recommendations. Research

could look at the specifics concerning how adopting elements on social media websites such as Facebook can serve to bolster relationships with customers, create brand evangelists, and affect buying behaviors. Knowledge of these dynamics may assist organizations in optimizing the interactive approaches utilized for strengthening the existing customer-company relationships and increasing the overall customer value. Filling these gaps through empirical work and theoretical analysis will help improve the understanding of the function of interactivity in digital media. This will give an understanding to organizations particularly those interested in the use of interactivity to foster engagement, enhance customer experience and promote organizational marketing strategies, especially in the complex digital environment.

3. Methodology

The study uses a positivist approach, focusing on objective analysis and quantifiable data to assess the relationships between SME performance, compatibility, cost-effectiveness, trust, and interaction. Additionally, the study employs a deductive methodology, beginning with hypotheses drawn from well-known theories like the Resource-Based View (RBV) and the Technology Acceptance Model (TAM). These frameworks serve as a guide for the study, guaranteeing conformity with the body of current literature while offering fresh perspectives unique to the hotel sector in Sri Lanka (Huang, 2023). 100 SMEs in the Colombo district were given structured questionnaires as part of a survey strategy to gather primary data. A picture of current digital transformation practices among SMEs is provided by the study's cross-sectional time horizon, which reflects the situation in Sri Lanka's hospitality industry (Zhu & Jin, 2023). Convenience sampling was used in the sampling process, guaranteeing easy and effective data collection from SMEs with different sizes, ages, and levels of technical preparedness (Phiet, 2024).

Figure 15 Conceptual Framework (Kumar, 2020)



Hypothesis 1 (H1): There is a positive relationship between compatibility with digital technologies and small business performance in the Sri Lankan hotel industry.

Hypothesis 2 (H2): Cost-effective adoption and utilization of digital technologies are positively associated with small business performance in the Sri Lankan hotel industry.

Hypothesis 3 (H3): Trust in digital platforms and technologies positively influences small business performance in the Sri Lankan hotel industry.

Hypothesis 4 (H4): Higher levels of interactivity facilitated by digital technologies are positively correlated with small business performance in the Sri Lankan hotel industry.

3. Data Operationalization

Table 39 Operationalization Table

Concept	Variable	Indicators	Measures
Compatibility with Digital Technologies	Compatibility Score	Integration with existing systems, ease of use	Likert scale (1-5)
Cost-Effectiveness of Digital Adoption	Cost-Effectiveness Index	Investment vs. returns, efficiency of resource allocation	Likert scale (1-5)
Trust in Digital Platforms	Trust Score	Reliability, security, reputation	Likert scale (1-5)
Interactivity Enabled by Digital Technologies	Interactivity Level	Engagement, responsiveness	Likert scale (1-5)
Small Business Performance in the Sri Lankan Hotel Industry	Performance Index	Revenue, profitability, customer satisfaction, market competitiveness	Likert scale (1-5)

4. Data Analysis

Data collection was carried out using structured questionnaires designed to capture key variables relevant to digital transformation. The variables included compatibility (the integration of technology with existing systems), cost-effectiveness (affordability of technology adoption), trust (security of digital platforms), and interactivity (the engagement and responsiveness of digital tools). SME performance was assessed based on revenue, profitability, customer satisfaction, and market competitiveness.

Descriptive statistics were used to summarize sample characteristics and variable distributions, while inferential analyses—such as correlation and regression—were employed to determine the strength and direction of relationships between digital transformation factors and business performance. SPSS statistical software was utilized to analyze how each factor of digital transformation impacts the performance of SMEs in the hotel industry. The findings highlighted the most critical factors for enhancing competitiveness and improving operational efficiency within the sector.

4.1. Demographic Analysis

It was observed that, in the case of SMEs of the Sri Lankan hotel industry, the age and number differ. 16% were younger and more open to digital transformation, while 58% had been operating between a period of 10-20 years, 8% between 20-50 years, and 18% more than 50 years. Most of the SMEs have 70-100 employees; 33% have 50-70 employees. 18% of the companies have between 100-200 employees, hence suggesting that larger SMEs may exploit digital transformation due to their scale. Only 13% have 10-30 employees, reflecting limited resources.

4.2. Reliability Analysis

The reliability analysis for the study variables demonstrates strong internal consistency, as indicated by Cronbach's Alpha values exceeding the acceptable threshold of 0.70 for all constructs. Specifically, Compatibility achieved a Cronbach's Alpha of 0.839, Cost-effectiveness scored 0.742, Trust recorded 0.727, Interactivity reached 0.740, and Business Performance showed the highest reliability with 0.848. These results confirm that all the variables are reliable and suitable for further analysis, ensuring the consistency of the measurement scale used in the study.

Table 40 Reliability Statistics

The variable	Cronbach's Alpha	Reliability	Conclusion
Compatibility	0.839	$0.839 > 0.70$	Reliable
Cost-effectiveness	0.742	$0.742 > 0.70$	Reliable
Trust	0.727	$0.727 > 0.70$	Reliable

Interactivity	0.740	0.740 > 0.70	Reliable
Business Performance	0.848	0.848 > 0.70	Reliable

4.3 Correlation Analysis

The correlation analysis signifies that core enabling factors for digital transformation are strongly and positively related to business performance. Indeed, the cost-effectiveness variable is most highly correlated with the business performance of SMEs, $r = 0.718$, which identifies that the affordability of digital solutions is very much enhanced to improve SMEs' performance. Compatibility with already operating systems also depicts strong positive correlation at $r = 0.643$, where in most instances, whole integration of digital tools has been considered paramount in realizing operational efficiency improvement. Trust in digital platforms correlates positively but falls on a lesser scale than the interactivity, which is at 0.648, whereas interactivity follows suit at 0.585. This explains that all these above-mentioned elements make for critical drivers of performance.

Table 41 Correlation Analysis

Variables	Pearson Correlation Value	Sig.	Beta Values
Compatibility	.643**	0.000	.488
Cost - Effectiveness	.718**	0.000	.185
Trust	.648**	0.000	-.099
Interactivity	.585**	0.000	.325

4.4 Regression Analysis

The coefficient table describes the significance and influence level of each independent variable on SME performance. From the significance level values shown by Sig., it is possible to deduce which factors are statistically significant. Cost-effectiveness, with its Sig. at 0.000, and compatibility, with its Sig. at 0.015, are below the 0.05 level and thus influential positively at high intensities on SME performance. Trust is not statistically significant, having the significance of 0.501, and neither is interactivity, since its significance is only 0.707, which refers to less direct or weaker influences within this framework.

The R value from the model summary table indicates that the model is significant to explain the variance in the performance of SMEs, standing at 0.567. This therefore means that 56.7% of the variation in business performance may be explained through the independent variables of compatibility, cost-effectiveness, trust, and interactivity. The adjusted R squared of 0.549 also shows the goodness of fit of the model even after adjustment for the number of predictors.

Table 42 Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.753 ^a	.567	.549	.58703	1.341

The same evidence is given in a similar direction by the ANOVA table. In fact, this overall regression model is statistically significant because its F Value was 31.080 with a Significance level of 0.000. The independent variables collectively make a meaningful contribution to explaining the dependent variable in the question-SME performance.

Table 43 ANOVA table

ANOVA ^a					
Model		Sum of Squares	df	Mean Square	F
					Sig.
1	Regression	42.840	4	10.710	31.080
	Residual	32.737	95	.345	
Total		75.578	99		

5. Discussion

These results signify how important digital transformation is in developing better performance in SMEs within the Sri Lankan hotel industry. This strong association between cost-effectiveness and performance also suggests that SMEs prefer technologies from which a high value of return on investment is obtained. This becomes even more relevant in resource-constrained environments where the maximum benefit is to be derived from digital tools without having to incur proscribed costs. This is in line with research by Kallmuenzer et al. (2024), which found that SMEs frequently put off using

digital technology because they are unsure of the returns on investment and the process of digitization. Another reason that has been brought forward, complementing the rest, has been compatibility that is, the ability of new technologies to merge with the pre-existing ones. In all, compatibility will drive success in operations.

The high-ranking influence of trust in digital platforms reflects an increasingly keen awareness among SMEs of the need for secure, reliable systems that protect customer data and ensure continuous operations. This is consistent with the global trend where data security is increasingly essential to sustaining customer trust and business reputation.

Thus, the lower correlation for interactivity would suggest that while relevant, the customer's engagement through digital platforms may not drive immediate business performance as much as the other factors. Long-term customer relationships and improved quality of service-a source of longer-term sustained performance gains cannot, however, be achieved without interactivity. Research supports this viewpoint by showing that, even if performance advantages may not be evident immediately, digital platform interactivity is essential for long-term customer engagement and high-quality service. The Boston Hospitality Review examines how the hospitality industry's consumer experiences are being reshaped by digital transformation, which includes interactive technologies (Zhu et al., 2021).

The present study corroborates that cost- effectiveness and compatibility are the most critical drivers of digital transformation among SMEs in the Sri Lankan hotel industry. In contrast, the drivers of trust and interactivity have relatively moderate impacts. These findings have some useful implications for the hotel SMEs that plan to use digital transformation in pursuit of competitive advantage and imply that the policymakers and industry leaders should support SMEs by providing affordable and compatible digital solutions.

In general, this paper contributes to the body of knowledge on digital transformation: improving SMEs performance in developing economies. The paper lays a foundation for future studies and practical applications in other sectors and regions.

6. Conclusion

This study explored the impact of Compatibility, Cost-Effectiveness, Trust, and Interactivity on the business performance of SMEs in Sri Lanka's hotel industry through the adoption of digital tools. The findings revealed that Compatibility and Trust play a pivotal role in ensuring seamless integration and adoption of digital tools, while Cost-Effectiveness addresses financial feasibility, and Interactivity enhances user engagement and system usability. Collectively, these factors significantly influence the efficiency and effectiveness of digital transformation initiatives, ultimately driving business performance.

However, several limitations were encountered during the study:

1. The study's sample was restricted to a limited number of SMEs in the hotel industry, which may not fully represent the broader industry. A larger sample could enhance the generalizability of findings.
2. The reliance on survey data and interviews introduces the potential for self-reporting biases. Incorporating alternative qualitative methods, such as case studies or observations, could provide richer insights.
3. Unaccounted external influences, including socio-economic, regulatory, and technological factors, may have impacted the results and limited their applicability to other contexts or regions.
4. The study's limited duration may not reflect the evolving dynamics of the industry or future technological advancements.

Future Research Suggestions

To address these limitations and further enhance understanding, future research can focus on:

1. Conducting studies with a larger and more diverse sample across various industries and regions to improve external validity.
2. Examining the long-term effects of digital tools on SME performance to capture industry evolution and technological advancements.
3. Analyzing the impact of socio-economic, regulatory, and technological factors on the adoption and success of digital tools in SMEs.
4. Employing methodologies such as ethnographic studies, in-depth interviews, and case studies to provide comprehensive insights into digital tool adoption.
5. Investigating the role of innovative technologies, such as AI, blockchain, or IoT, in further advancing business performance in SMEs.

By addressing these limitations and pursuing future research opportunities, a deeper understanding of the interplay between digital tools and SME performance can be achieved. This will provide actionable insights for stakeholders aiming to enhance the digital transformation journey of SMEs, particularly within the Sri Lankan hotel industry.

References

- Abeygunasekara, N., & P. D. S. D. b., R. (2023). Impact of digital transformation on the performance of SMEs. Retrieved from <http://ir.lib.ruh.ac.lk/bitstream/handle/iruor/14835/75%20%28247-262%29.pdf?sequence=1&isAllowed=y>
- Ahmad, M. B. (2019). Quantitative data collection methods. In M. B. Ahmad, Research methods in communication & media studies (pp. 188–205). Franklin International Publishers. Retrieved from https://www.researchgate.net/publication/335345700_Quantitative_Data_Collection_Methods
- Amudhan, S. (2022). Impact of digital transformation of the banking sector in rural areas. *Journal of Positive School Psychology*, 6(2), 763–771.
- Armutcu, B., Tan, A., & Amponsah, M. (2023). Tourist behaviour: The role of digital marketing and social media. *Acta Psychologica*, 240. <https://doi.org/10.1016/j.actpsy.2023.104025>
- Botta, A. (2022). A study on the adoption of digital payment mechanism by small retail stores in Visakahapatanam City. *Journal of Positive School Psychology*, 6(10), 61–66. Retrieved from <https://journalppw.com/index.php/jpsp/article/view/12943/8397>
- Carvalho, A. M., & Sampaio, P. (2020). Technology and quality management: A review of concepts and opportunities in the digital transformation. *International Conference on Quality Engineering and Management 2020*. Barag. Retrieved from https://www.researchgate.net/publication/344413219_Technology_and_Quality_Management_a_review_of_concepts_and_opportunities_in_the_Digital_Transformation
- Central Bank of Sri Lanka (CBSL). (2023, June 8). Sri Lanka economy snapshot. Retrieved from <https://www.cbsl.gov.lk/en/sri-lanka-economy-snapshot>
- Chamboko-Mpotaringa, M., & Tichaawa, M. (2021). Tourism digital marketing tools and views on future trends: A systematic review of literature. *African Journal of Hospitality, Tourism and Leisure*, 10(2), 716–726. <https://doi.org/10.46222/ajhtl.19770720-128>
- Chao, N., Zhou, Y., & Yang, H. (2024). How does digital transformation affect the profitability of rural commercial banks? *Heliyon*, 10(8). <https://doi.org/10.1016/j.heliyon.2024.e29412>
- Chen, Z., Li, H., Wang, T., & Wu, J. (2023). How digital transformation affects bank risk: Evidence from listed Chinese banks. *Finance Research Letters*, 58. <https://doi.org/10.1016/j.frl.2023.104319>

- Davis, F. D. (1989). Perceived usefulness, perceived ease of use, and user acceptance of information technology. *MIS Quarterly*, 13(3), 319. <https://doi.org/10.2307/249008>
- Dissanayaka, T. (2017). Microfinance services and growth of micro and small-scale industries in Sri Lanka. *Journal of Management Matters*, 4(2), 37–45.
- Dragana Radicic, S. P. (2023). Impact of digitalization on technological innovations in small and medium-sized enterprises (SMEs). *Technological Forecasting and Social Change*, 20(1).
- Fan, X., Sun, H., & Dai, M. (2022). A study on the impact of digital transformation on corporate technology innovation. *ICMSSE*, 12, 854–859. https://doi.org/10.2991/978-94-6463-056-5_123
- Ghofiqi, M. D., & Suaedi, F. (2023). Analysis of digital transformation in public services (Case study: Banyumas Regency Public Service Mall). *Ilomata International Journal of Social Science*, 4(4). <https://doi.org/10.52728/ijss.v4i4.949>
- Glasow, P. (2005). Fundamentals of survey research methodology. Retrieved from <https://www.uky.edu/~kdbrad2/EPE619/Handouts/SurveyResearchReading.pdf>
- Goonawardena, E., Surangi, H., & Ranwala, R. (2023). Impact of digital transformation on small and medium enterprises' performance in the Sri Lankan apparel sector. *Sri Lanka Journal of Marketing*, 9(2). Retrieved from <https://storage.googleapis.com/jnl-sljo-j-sljml1-files/journals/1/articles/123/651bb302cad13.pdf>
- Huang, Z. (2023). Research on the impact of digital transformation of commercial banks on profitability. *SHS Web of Conferences*, 163. <https://doi.org/10.1051/shsconf/202316302015>
- Huang, Z. (2023). Research on the Impact of digital transformation of Commercial banks on Profitability. *SHS Web of Conferences*, 163, 02015. <https://doi.org/10.1051/shsconf/202316302015>
- Jayalath, J. A., & Premaratne, S. C. (2021). Analysis of digital transformation challenges to overcome by banks and financial institutions in Sri Lanka: A study among the Sri Lankan fintech. *International Journal of Research Publications*. <https://doi.org/10.47119/IJRP100841920212260>
- Kallmuenzer, A., Mikhaylov, A., Chelaru, M., & Czakon, W. (2024). Adoption and performance outcome of digitalization in small and medium-sized enterprises. *Review of Managerial Science*. <https://doi.org/10.1007/s11846-024-00744-2>
- Kitsios, F., Kamariotou, M., & Mavromatis, A. (2023). Drivers and outcomes of digital transformation: The case of public sector services. *Information*, 14(1), 43. <https://doi.org/10.3390/info14010043>

- Kumar, R. (2020). Methods of data collection. *Research Methodology & Protocol Design*.
<https://doi.org/10.13140/RG.2.2.26435.22561>
- Larsson, A., & Teigland, R. (2020). Digital transformation and public service: Societal impacts in Sweden and beyond. Retrieved from https://library.oapen.org/bitstream/handle/20.500.12657/24567/1/9780367333430_text17oktober.pdf
- Madurapperuma, R. K., & Colombage, V. (2022). Factors affecting the adoption of digital marketing by SMEs in the context of Sri Lanka. *Annual International Conference on Business Innovation (ICOBI) 2022*.
- Malla, F. H., & Jorasia, A. (2023). Transforming public service delivery: An in-depth analysis of digital transformation initiatives in government agencies. *International Journal of Creative Research Thoughts*, 11(6). Retrieved from <https://www.ijcrt.org/papers/IJCRT2306209.pdf>
- Masoud, R., & Basahel, S. (2023). The effects of digital transformation on firm performance: The role of customer experience and IT innovation. *Digital*, 3(2), 106–109.
<https://doi.org/10.3390/digital3020008>
- Millard, J. (2023). Impact of digital transformation on public governance: New forms of policymaking and the provision of innovative, people-centric, and inclusive public services.
- Mishra, M. K. (2020). Digital transformation of public service and administration. ZBW – Leibniz Information Centre for Economics, Kiel, Hamburg. Retrieved from <http://hdl.handle.net/10419/222522>
- Mohajan, H. (2018). Qualitative research methodology in social sciences and related subjects. *Journal of Economic Development, Environment and People*, 7(1), 23–48. Retrieved from <https://mpira.ub.uni-muenchen.de/85654/>
- Nguyen, T. (2023). Factors Influencing SMEs' Digital Transformation: The case study in Central Highlands in Vietnam. *Journal of System and Management Sciences*, 14(1).
<https://doi.org/10.33168/jsms.2024.0111>
- Nguyen-Thi-Huong, L., & Nguyen-Vie, H. (2023). How does digital transformation impact bank performance? *Cogent Economics & Finance*, 11(1).
<https://doi.org/10.1080/23322039.2023.2217582>
- Nilasari, M., Jasfar, F., & Wahyudi, A. S. (2022). The effect of interactivity, cost-effectiveness, and compatibility on the use of social media and its implications for organizational performance. *American Research Journal of Business and Management*, 5(1).
<https://doi.org/10.21694/2379-1047.19003>

- Palos-Sánchez, P. R., & Baena-Luna, P. (2023). Digital transformation and local government response to the COVID-19 pandemic: An assessment of its impact on the Sustainable Development Goals. *SAGE Open*, 11. <https://doi.org/10.1177/21582440231167343>
- Perera, N. (2021). Impact of digital transformation in measuring business performance of small and medium-scale businesses in Sri Lanka. *International Journal of Economics, Business and Management Research*, 5(7).
- Phiet, L. T. (2024). Factors influencing SMEs' digital transformation: The case study in Central Highlands in Vietnam. *Journal of System and Management Sciences*, 14(1), 175–187. <https://doi.org/10.33168/JSMS.2024.0111>
- Rassool, M. R., & Dissanayake, D. (2019). Digital transformation for small and medium enterprises (SMEs): With special focus on Sri Lankan context as an emerging economy. *International Journal of Business and Management Review*, 7(4), 59–76.
- Savignon, A. B., & Zecchinelli, R. (2023). Automation in public sector jobs and services: A framework to analyze public digital transformation's impact in a data-constrained environment. *Transforming Government: People, Process and Policy*. <https://doi.org/10.1108/TG-04-2023-0044>
- Shanti, R., Siregar, H., & Zulbainarni, N. (2023). Role of digital transformation on digital business model banks. *Sustainability*, 15(23), 16293. <https://doi.org/10.3390/su152316293>
- Singh, J., & Ji, G. Z. (2023). Digitalization and its impact on small and medium-sized enterprises (SMEs): An exploratory study of challenges and proposed solutions. *International Journal of Business and Technology Management*, 5(4), 238–255. <https://doi.org/10.55057/ijbtm.2023.5.4.22>
- Smith, T., & Smith, S. (2018). Reliability and validity of the research methods skills assessment. *International Journal of Teaching and Learning in Higher Education*, 30(1), 80–90. Retrieved from <https://files.eric.ed.gov/fulltext/EJ1169831.pdf>
- Struk, N., & Yevtushenko, N. (2022). Impact analysis of digital transformation on the national business structures development. *Financial and Credit Activity Problems of Theory and Practice*, 6(47), 218–227. <https://doi.org/10.55643/fcaptop.6.47.2022.3916>
- Terrell, S. R. (2012). Mixed-methods research methodologies. *The Qualitative Report*, 17(1), 254–265. <https://doi.org/10.46743/2160-3715/2012.1819>
- Wang, C., & Ma, L. (2022). Digital transformation of citizens' evaluations of public service delivery: Evidence from China. *Global Public Policy and Governance*, 2, 477–497. <https://doi.org/10.1007/s43508-022-00054-x>

- Weragoda, L., Abdul-Cader, K., & Azam, M. (2023). Impact of digitalization on consumer awareness of an SME mobile enterprise. *The Journal of Applied Learning*, 1(1). Retrieved from https://bms.ac.lk/Journal-of-Applied-Learning/Volume_1-Issue_1-July_2023/Business/Lakshan_Weragoda_BMS_Journal.pdf
- World Bank. (2023). Sri Lanka development update 2023. Retrieved from <https://www.worldbank.org/en/country/srilanka/publication/sri-lanka-development-update-2023>
- Zartis Team. (2019). Cloud computing and SaaS: A power duo in the digital transformation era. Retrieved from <https://www.zartis.com/cloud-computing-and-saas-a-power-duo-in-the-digital-transformation-era/>
- Zhu, J., Wang, Y., & Cheng, M. (2021). Digital transformation in the hospitality industry. In Boston University School of Hospitality Administration, Curtin University, & Sichuan University, Boston University School of Hospitality Administration (pp. 1–3) [Journal-article]. https://www.bu.edu/bhr/files/2021/10/BHR_Zhu-et-al_Digital-Transformation_OCT.21.docx.pdf
- Zhu, Y., & Jin, S. (2023). How does the digital transformation of banks improve efficiency and environmental, social, and governance performance? *Systems*, 11(7), 328. <https://doi.org/10.3390/systems11070328>
- Zhu, Y., & Jin, S. (2023). How does the digital transformation of banks improve efficiency and environmental, social, and governance performance? *Systems*, 11(7), 328. <https://doi.org/10.3390/systems11070328>