



Social Media Adoption Effect on Innovation and Perceived Business Performance of Small and Medium-Sized Enterprises in Sri Lanka

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DOI: <https://doi.org/10.4038/sljmuok.v10i2.190>

ABSTRACT

This study investigates the effects of social media adoption on Small and Medium-Sized Enterprises (SMEs') perceived business performance, focusing on the Galle district. Employing a deductive approach, a conceptual model was developed and tested, examining social media adoption's direct and indirect influences on SMEs' performance, mediated by innovation. Data were collected through a questionnaire distributed among SME owners, CEOs, or top management members. Convenience sampling was utilized, drawing from the Sri Lanka Small and Medium Industries (SLCSMI) Board's register of registered establishments in the Galle district. From the initial 165 organizations sampled, responses from 116 SMEs were received after eliminating those indicating no or poor social media adoption. The direct effect of social media on net profit growth (NPG) is not statistically significant, suggesting that there is no significant linear relationship between social media and NPG after accounting for the mediator variable (innovation). The indirect effect of social media on NPG through the mediator variable (innovation) is also not statistically significant.



These results imply that while there may be a relationship between social media, innovation, and NPG individually, the relationship between social media and NPG may be mediated by the variable innovation, and this mediation effect is not statistically significant in this analysis. These findings contribute to understanding the dynamics of social media adoption in the context of SMEs, highlighting its potential to enhance business performance. Additionally, the study underscores the need for improved data infrastructure to facilitate more comprehensive research and policymaking in Sri Lanka's SME sector.

Keywords: *Innovation, Perceived Business Performance, Small and Medium-Sized Enterprises, Social Media Adoption*

1. INTRODUCTION

The advancement and improvement of information technology have led social media to act as an emerging platform in every sector. Facebook, the largest social media platform in the world, had 2.4 billion users in 2019. Other social media platforms, including YouTube and WhatsApp, also had over one billion users each. These numbers are huge – 2019 there were 7.7 billion people worldwide, with at least 3.5 billion online (Ortiz & Roser, 2023). According to Datareportal (2023), there were 4.80 billion social media users worldwide in April 2023, equating to 59.9 percent of the global population. Social media user numbers have continued to grow over the past 12 months, with 150 million new users joining social media since last year. That equates to an annualized growth of 3.2 percent, at an average rate of 4.7 new users every single second.

The latest figures indicate that well over 9 in 10 internet users now use social media each month. The number of people using social media is 59.35% of the world's population and 75.9% of the population above 13 years of age. 93.4% of Internet users in today's world contribute to the community by registering on social networks, reading, and creating blogs, and reviewing services and shopping sites. This means social media platforms are used by one in three people worldwide and more than two-thirds of all internet users. Social media has changed the world. The rapid and vast



adoption of these technologies is changing how we find partners, access information from the news, and organize to demand political change (Ortiz & Roser, 2023).

A huge amount of data is available on social media to capture public opinion, and many big data analysis tools and algorithms are available to analyze them further. For instance, there are over two billion active social media users in the Asia-Pacific region, and it records the world's highest number of social network users. According to Statcounter (2023), in April 2023, as an Asian country, 71% of Sri Lankans used Facebook, 19% used YouTube, 3% used Twitter and Pinterest, and 3% used Instagram. People use aforesaid social media networks to share their thoughts, feelings, and observations within their network. As social media represents a revolutionary new trend that works in any space, many companies, especially small and medium enterprises, are turning to social media.

Small- and medium-sized enterprises (SMEs) play a crucial role in economic development, particularly in emerging economies (Gherghina et al., 2020). Despite their significance, SMEs often face challenges in adopting and utilizing digital technology, particularly in social media, which can hinder their growth and competitiveness (Horváth & Szabó, 2019). Social media, e.g., Facebook, Twitter, and Instagram, can bridge the digital divide and provide SMEs with the tools to connect with their customers and improve their operations (Abed et al., 2015). Social media can also be seen as a tool for promoting inclusive and sustainable industrialization and fostering innovation for SMEs (Jiménez et al., 2021).

Studies have been conducted in many countries on social media and their relationship to SMEs, including in Sri Lanka (Fernando & Samarakoon, 2021; Niranjala, 2020; Siraj & Ali, 2023; Wijesinghe & Wijayanayake). Most of these studies have focused on the exponential growth of transactions that occur using social media by small and medium-sized businesses. Some scholars have focused on the contribution of social media to national productivity and employment promotion. However, it appears that not enough attention has been paid to the impact of social media adoption and innovation on the performance of small and medium-sized businesses in the Sri



Lankan context (Ainin et al., 2015; Malalage; Malalage & Fernando, 2019; Siraj & Ali, 2023).

Small and medium-scale enterprises (SMEs) comprise a large part of Sri Lanka's economy, accounting for 80 percent of all businesses. These are found in all sectors of the economy, primary, secondary, and tertiary, and employ people with different skills, skilled, semi-skilled, and unskilled (Small and Medium Enterprises (SME), n.d.). SMEs in the agri-business sector engaged in growing spices, fruits and vegetables, and the manufacturing sector engaged in numerous industrial activities that accounted for about 20 percent of industrial establishments. In the service sector, SMEs account for more than 90 percent of business establishments. SMEs are an essential source of employment opportunities and are estimated to contribute about 35 percent of employment. The SMEs play an important role in promoting inclusive growth. The focus on SMEs in policy discussions also emanates from their role in developing entrepreneurial skills, innovation, and promoting economic growth. These are also seen as useful in promoting social cohesion (Small and Medium Enterprises (SME), n.d.).

According to Pellegrino and Abe (2023), examining SMEs and social media in developing countries and emerging markets has been identified as an under-explored area in the literature on SMEs and social media. Therefore, given the importance of social media for SMEs and the lack of a comprehensive understanding of its usage in this context, the main objective of this article is to provide a thorough understanding of social media and SMEs in Sri Lanka. This will enable SMEs, researchers, policymakers, and practitioners to make informed decisions regarding social media adoption and utilization for the SME sector's benefit and help scholars easily identify gaps within the existing literature on which they may focus in the future.



2. LITERATURE REVIEW

2.1. Social Media

Social media is a digital technology with a collection of Internet-based applications that build on the ideological and technological foundations of Web 2.0 (Web 2.0 shifts from a static, read-only web to a dynamic, interactive web, where users can actively participate and create content. Web 2.0 technologies include blogs, wikis, social networks, and video and photo-sharing sites (Soga et al., 2021). The second generation of the World Wide Web (Kaplan & Haenlein, 2010) assists in creating and exchanging user-generated content. Social media has rapidly emerged as a major tool for information sharing with the rise of popular platforms such as Facebook, Twitter, Instagram, and LinkedIn (Kaplan & Haenlein, 2010).

According to Pellegrino and Abe (2023), These platforms have redefined how people interact, share information, and consume news, creating a new level of interconnectedness and communication with a range of features, including social networking, content sharing, and live streaming. Social media has profoundly impacted society, affecting how people form relationships, consume news and information, and engage in political and social activism. The development of social media has also given rise to new platforms, each with its own set of unique services and functions, such as Snapchat, TikTok, and Reddit, to name a few. However, the widespread adoption of social media has created new challenges for society, such as data privacy and security, disinformation and fake news, and the impact on mental health.

Social media can assist SMEs in reaching and engaging customers through digital channels, using functions such as search engine optimization and pay-per-click advertising (Desai & Vidyapeeth, 2019). Social media marketing is a kind of digital marketing that uses social media platforms to promote a product or service. It leverages the unique features of social media platforms, such as user-generated



content, social networks, and real-time engagement, to reach and engage customers in a personalized and effective manner (Ana & Istudor, 2019).

SMEs can utilize social media to manage various digital marketing practices while enhancing their performance. For SMEs, social media offers a cost-effective digital marketing tool to reach a global audience, enhance brand reputation, and build customer loyalty (Pellegrino & Abe, 2023).

2.2. Small and Medium-sized Enterprises (SMEs)

According to the Sri Lanka Export Development Board, small and medium-sized enterprises comprise a lower number of employees, assets, or revenues on a lower scale than large-scale firms. The exact definition of an SME may differ based on the country. In Sri Lanka, a business is considered an SME if its number of employees does not exceed 300 individuals and if its revenue does not exceed 750 million LKR.

SMEs play a key role in the wellness of many Asian economies. These entities require less capital than larger firms. Therefore, the growth of an SME provides more employment opportunities to the youth and supports the battle against poverty. They can also increase tax bases much more quickly than big organizations. This is good news for any government (Advocata, 2019).

As per the Small and Medium Enterprises (SME) (n.d.) Massive numbers of SMEs support Sri Lanka's socio-economic development. These businesses contribute up to 52% of the GDP. As a result, it is considered as the backbone of the economy. Some major sectors powered by SMEs include the agricultural sector; in the agricultural sector, SMEs account for over 90% of the total enterprises. SME establishments in Sri Lanka accounted for up to 1.017 million, providing livelihood to nearly 2.225 million individuals in the non-agricultural sector.



2.3. Perceived Business Performance

In general, business performance is defined as “the operational ability to satisfy the desires of the company’s major shareholders” (Smith & Reece, 1999, p. 153), and it must be assessed to measure an organization’s accomplishment. Regular indicators used in measuring business performance are profit, return on investment, turnover or number of customers, design quality and product improvement. However, Mann and Kehoe (1994) recommend measuring business performance through the business performance measurement system, as it is an important tool within many research areas, particularly in business and social science studies. This system analyses and investigates each quality that affects a firm’s business performance, categorizing business performance into two broad areas: operational business performance and strategic business performance. The system’s major function is to investigate all an organization’s functions at high and low levels of activity (Mann & Kehoe, 1994); it is appropriately applied to measuring the performance of small and medium enterprises (SMEs). This system is also appropriate for both quantitative and qualitative research methods. SMEs are often reluctant to publicly reveal their financial performance, and scholars have deliberated on the need for subjective measures (for example, the seven-point Likert scale in empirical research) in evaluating business performance (Fernando & Samarakoon, 2021; Malalage & Fernando, 2019).

2.4. Innovation

According to Thompson (1965), innovativeness generates, accepts, and implements new ideas, processes, products, and services. Innovation can be considered a key factor that helps improve and maintain organizational performance. Innovation dimensions are divided into four parts: product, process, position, and paradigm. These innovations are recognized as innovation 4ps. Innovativeness can be described using two aspects: product creativity and technology-based innovation. SMEs deliver creative products and services due to innovativeness, and the technological aspect of innovativeness helps a company to have distinctive competencies and produce better



products than its competitors. Modern technology helps to bring up products with improved quality and improved productivity and efficiency simultaneously with the competitiveness it provides between organizations (Tidd, 1997).

Generally, innovation reflects learning to support new ideas, novelty, experimentation, and creative processes (Maes & Sels, 2014). Innovativeness is a company's openness to new concepts, procedures, and products. It comprises the firm's readiness to convert and accept the most recent technology and market trends (Miller, 2011). Since innovativeness was defined within two significant aspects of innovation: developing ideas and knowledge. In contrast, the second is the concrete implementation of the ideas. Further, past studies state that innovation leads to an increase in the ability to sense the market. Additionally, Munasinghe and Malkumari (2012) said that successful SMEs care much because innovations advance performance.

2.5. Social Media Adoption and Return on Assets

According to Mamun et al. (2018), SMEs must adopt new technologies, such as social media, to become competitive and satisfy potential customers' needs. Continuous internet advancement has played a key role in business performance, and social media is particularly significant in this context in emerging countries. Richey and Ravishankar (2019) proposed that Social Media use in industrial markets is growing in the hope that it may foster relationships and network development, which support both profits- and innovation-related. Social media-generated information also benefits developing countries' industry and government business performance policies. Social media adoption has become common in business entities in developed countries and continues to grow in emerging countries. Social media's popularity and emerging trends facilitate firms' online learning and information-sharing processes, which are considered effective in achieving goals and improving business performance (Rialp-Criado & Rialp-Criado, 2018).

Various studies have shown that technology can improve business processes and performance (Hakala & Kohtamäki, 2011; Paniagua & Sapena, 2014). Some researchers have found that corporate adoption of social media provides benefits, and several have identified a positive relationship between social media adoption and corporate performance (Ainin et al., 2015; Paniagua & Sapena, 2014; Rodriguez et al., 2016). Rodriguez et al. (2016) found that social media use positively affected customer-facing activities and sales performance. Ferrer et al. (2013) noted that adopting social media positively affected organizational social capital, affecting performance. Wong (2012) and Kwok and Yu (2013) found that Facebook adoption positively affected SMEs' sales performance. Ali-Hassan et al. (2015) noted that social media can significantly impact business by significantly influencing purchasing decisions. These studies are consistent with previous technology adoption literature that found that technology adoption had a positive impact on both financial and non-financial performance (Damanpour et al., 1989; Scupola & Nicolajsen, 2013; Thong, 2001; Tushman & Nadler, 1986).

H_{1a}: Social media adoption positively affects the perceived net profit growth of SMEs.

H_{1b}: Social media adoption positively affects the return on assets of SMEs.

2.6. Social Media Adoption and Innovation

The turn of the century significantly improved the enhancement of technological innovation. The innovation of social media provides users with a variety of communication tools. For instance, Facebook allows users to broadcast messages to a large audience using status updates and wall posts while also providing features, such as chat, for messages the user wishes to keep private. While the diversity of features available in social media allows for equally diverse forms of communication, previous research addressing the motivation for using social media considers the possibility that users tend to use social media features for the same purposes, which means that the motivation to adopt social media is homogeneous (Smock et al., 2011).

Although not yet examined, the relationship between social media needs and innovation is suggested through empirical evidence (Durukan et al., 2012); social media adoption is highly related to innovation uniqueness, which increases the speed of technology adoption. Innovation attributes of social media reflect the idea that the greater the innovation, the more room there is for social media adoption.

H₂: Social media adoption has a positive influence on the innovation of SMEs.

2.7. Innovation and Perceived Business Performance

Many economists have accepted innovation as a key condition for business performance, competitiveness, and economic wealth. A study by Deshpande et al. (1993) indicated that innovativeness is positively related to organizational performance regarding relative profitability, market share, and growth. Baldwin and Johnson (1996) showed the significant impact of innovation on various business performance measures, including market share and return on investment. Further, Salavou (2002) also found that product innovation was a significant determinant of business performance based on return on assets.

According to the study of Najib and Kiminami (2011), SMEs' innovation influences business performance significantly. Innovation in product, process, marketing, and packaging is an important factor in dealing with customers and competitors. For these SMEs, increased innovation means a higher possibility of success in the market. Considering the positive relationship between innovation and business performance, it is an important strategy that SMEs operating in a dynamic and highly competitive environment would need to consider on innovation activities. Since innovation is influenced by cooperation, it may be advantageous for SMEs to maintain close cooperation to continue innovativeness.

H_{3a}: Innovation has a direct impact on the perceived net profit growth of SMEs.

H_{3b}: Innovation has a direct impact on the perceived return on assets of SMEs.

Dynamic Capability theory holds that organizations produce several capabilities that enable them to structure their processes and resources to meet the organizational goals (Teece, 2007), allowing them to remain competitive during turbulent market conditions. Nowadays, social media and innovation, though exclusively modelled, have been argued as complimentary organizational capabilities that improve firm performance. However, their complementary impact on organizational performance is not universally linear and context-specific (Trainor, 2012) and may have unexpected deviations from the same point, as is complexity theory's conventional argument. Accordingly, an empirical investigation of Innovation's mediating role is required based on social media adoption and perceived business performance.

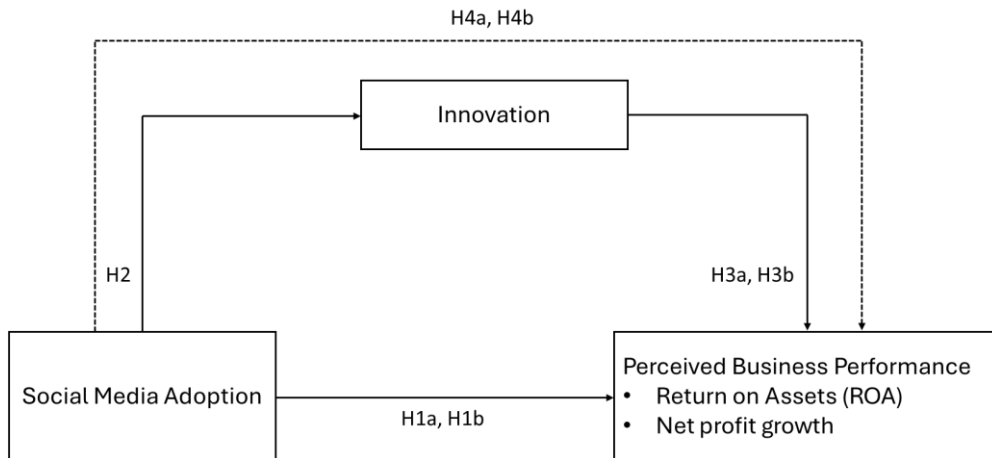
H_{4a}: Innovation mediates the relationship between social media adoption effect on the net profit growth of SMEs.

H_{4b}: Innovation mediates the relationship between social media adoption effect on the return on assets of SMEs.

The conceptual model of the study was developed based on the hypotheses mentioned above and is available in Figure 01. Therefore, social media adoption is the independent variable of the study. Perceived business performance is considered as the dependent variable of the study, and innovation is considered as the mediator of the study.

2.8. Conceptual Model of the Study

Figure 1: Conceptual Model



3. METHODOLOGY

The researcher uses the deductive approach as the primary research approach. This study aims to identify Social Media Adoption's direct and indirect influence (through innovations) on the perceived performance of SMEs. To obtain accurate data on social media usage and SMEs, there are no adequate systems and institutions in Sri Lanka. There is also a lack of completeness in the data available to institutions such as the Department of Population and Statistics and the Central Bank of Sri Lanka, which currently compile the data. Accordingly, the Galle district of the southern province was selected for this purpose since the Galle district is an area rich in SMEs. The convenience sampling method was utilized to select SMEs, and questionnaires were distributed among the selected SME owners, CEOs, or members of top management who work in SMEs.

The sample was based on the Sri Lanka Small and Medium Industries (SLCSMI) Board's register of registered business establishments in the Galle district. According to the list, 165 organizations were randomly selected. Researchers distributed a questionnaire to assess the social media adoption of SMEs. Based on the responses

received, the responses of “No social media adoption” and “Poor social media adoption” SMEs were eliminated from the study. Accordingly, the survey was limited to the remaining 142 institutions in the selected sample. Out of 142 SMEs, researchers only received responses from 116 SMEs.

Table 1: Sampling

Staff Category	Sample Size	Responded Number
Manufacturing Sector	93	81
Service Sector	49	35
Total	142	116

Source: Primary Data

According to the above data, 81 of the 93 manufacturing sectors included in the selected sample and 35 of the 49 selected service sectors and the 116 organizations that responded were included in the survey. SPSS Software package (version 23) was applied to analyze the data, using statistical tools such as Pearson’s correlation and multiple regression.

4. DATA ANALYSIS

This study presented a quantitative study to quantify the association between the independent and dependent variables. To test the reliability, the study has considered Cronbach’s Alpha value. The quantitative data collected from the questionnaires was analyzed using statistical techniques such as descriptive statistics, correlation analysis, and regression analysis. This regression analysis will help examine the impact of social media adoption, innovation, and perceived performance of SMEs. The study examined how social media adoption affects perceived performance in SMEs. The mediating effect of innovativeness on the relationship between social media adoption and perceived performance, the mediating effect assessing whether the mediator variable significantly influences an independent variable to the dependent. The process method was used to assess the mediating effect of innovation on the relationship between social media adoption and perceived performance.

4.1. Scope of the business

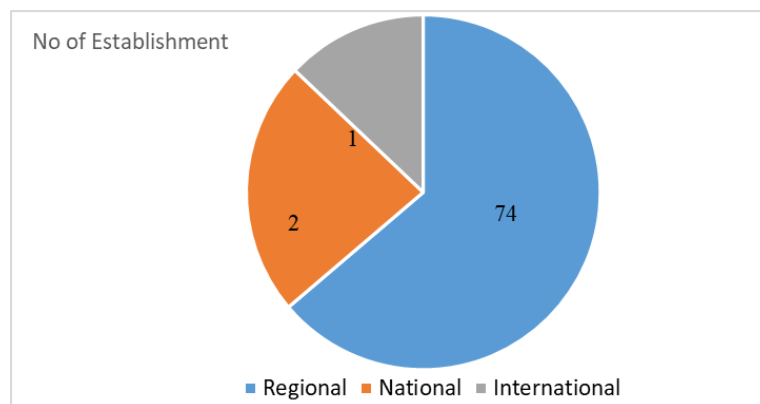
Table 1 shows the number of establishments in different categories based on their business scope. The breakdown of the number of establishments in each category is given below.

Table 2: Scope of the business

Business Scope	No of Establishment
Regional	74
National	27
International	15
Total	116

Source – Primary Data

Figure 2: Scope of the business



Most of the SMEs in the area are local businesses. Most are in urban areas, and many are located outside the city in rural areas. 27 institutions conduct business activities outside the region, especially with Colombo and its suburbs.

There are 15 international-level companies. Most of it is related to agriculture and animal production. Exports related to cinnamon, tea, and coconut, as well as tourism, belong to these 15 institutions.



Table 3: Reliability of Variables (Cronbach's Alpha Table)

Variables	Number of items	Cronbach's Alpha
Social media adoption	10	0.791
Innovation	06	0.735

Source – Primary Data

A value of 0.7 or higher is generally considered acceptable for research purposes. Social media adoption has 10 items and Cronbach's alpha of 0.791, while Innovation has 6 items and a Cronbach's alpha of 0.635.

4.2. Social Media Adoption and Perceived Net Profit Growth

Table 4: Model Summary for Social Media Adoption and Net Profit Growth

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.176 ^a	.031	.022	.69644

a. Predictors: (Constant), SoM

Source – Primary Data

Multiple correlation “R” was 0.176. This says that there was a weak positive relationship between the independent variables and dependent variables. R-square is 0.031. This indicated that 3.1 percent of the dependent variable had been described by the independent variables. Therefore, social media adoption impacts net profit growth by 3.1 percent.

Table 5: Coefficients for Social Media Adoption and Perceived Net Profit Growth

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.203	.666		4.811	.000
	SoM	.292	.154	.176	1.904	.059

a. Dependent Variable: NPG

Source – Primary Data

The regression model shows that the independent variable, social media adoption towards net profit growth, has an unstandardized coefficient of 0.292. This means that around 29 percent of the variation in social media adoption towards net profit growth can be explained by it.

Table 6: ANOVA for Social Media Adoption and Perceived Net Profit Growth

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.758	1	1.758	3.624	.059 ^b
	Residual	55.293	114	.485		
	Total	57.050	115			

a. Dependent Variable: NPG

b. Predictors: (Constant), SoM

According to the above table, the “P” value of the analysis showed a value of 0.059, which is >0.05 , and the F value is 3.624. The overall model was insignificant at the level of $p < 0.05$, meaning that the probability of these results by chance is very high.

4.3. Social Media and Perceived Return on Assets of SMEs

Table 7: Model Summary for Social Media Adoption and Return on Assets of SMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.204 ^a	.042	.033	.60290

a. Predictors: (Constant), SoM

Source – Primary Data

Multiple correlation “R” was 0.204. This says that there was a weak positive relationship between the independent variables and dependent variables. R-square is 0.042. This indicated that 4.2 percent of the dependent variable had been described

by the independent variables. Therefore, social media adoption impacts the perceived market share of SMEs by 4.2 percent.

Table 8: Coefficients for Social Media Adoption and Return on Assets of SMEs

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.050	.576		5.292	.000
	SoM	.296	.133	.204	2.227	.028

a. Dependent Variable: ROA

Source – Primary Data

The regression model shows that the independent variable, social media adoption towards net profit growth, has an unstandardized coefficient of 0.296. This means that around 29 percent of the variation in social media adoption towards perceived market share of SMEs can be explained by it.

Table 9: ANOVA for Social Media Adoption and Return on Assets of SMEs

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.803	1	1.803	4.960	.028 ^b
	Residual	41.437	114	.363		
	Total	43.240	115			

a. Dependent Variable: ROA

b. Predictors: (Constant), SoM

Source – Primary Data

According to the above table, the “P” value of the analysis showed a value of 0.028, which is <0.05 , and the F value is 4.960. The overall model was significant at the level of $p < 0.05$, meaning that the probability of these results by chance is very low.

4.4. Social Media Adoption and Innovation

Table 10: Model Summary for Social Media Adoption and Innovation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.386 ^a	.149	.142	.39162

a. Predictors: (Constant), SoM

Source – Primary Data

Multiple correlation “R” was 0.386. This says that there was a weak positive relationship between the independent variables and dependent variables. R-square is 0.149. This indicated that 14.9 percent of the dependent variable had been described by the independent variables. Therefore, social media adoption impacts the innovation of SMEs by 14.9 percent.

Table 11: Coefficients for Social Media Adoption and Innovation

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.639	.374		7.051	.000
	socialmedia	.386	.086	.386	4.473	.000

a. Dependent Variable: innovation

Source – Primary Data

The regression model shows that the independent variable, social media adoption towards innovation, has an unstandardized coefficient of 0.386. This means that around 38 percent of the variation in social media adoption towards the innovation of SMEs can be explained by it.

Table 12: ANOVA for Social Media Adoption and Innovation

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.068	1	3.068	20.007	.000 ^b
	Residual	17.484	114	.153		
	Total	20.552	115			

a. Dependent Variable: innovation

b. Predictors: (Constant), socialmedia

Source – Primary Data

According to the above table, the “P” value of the analysis showed a value of 0.000, which is <0.05 , and the F value is 20.007. The overall model was significant it was significant at the level of $p < 0.05$, meaning that the probability of these results by chance is very low.

4.5. Innovation and Net Profit Growth.

Table 13: Model summary for Innovation and Net Profit Growth

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.185 ^a	.034	.026	.41727

a. Predictors: (Constant), NPG

a. Dependent Variable: NPG

Source: Primary Data

Multiple correlation “R” was 0.185. This says that there was a weak positive relationship between the independent variables and dependent variables. R-square is 0.034. This indicated that 3.4 percent of the dependent variable had been described by the independent variables. Therefore, innovation impacts the net profit growth of SMEs by 3.4 percent.

Table 14: Coefficients for Innovation and Net Profit Growth

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1	(Constant)	3.810	.250		15.262	.000
	NPG	.111	.055	.185	2.010	.047

a. Dependent Variable: innov

Source: Primary Data

Table 14: ANOVA for Innovation and Net Profit Growth

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.704	1	.704	4.041	.047 ^b
	Residual	19.849	114	.174		
	Total	20.552	115			

a. Dependent Variable: innov

b. Predictors: (Constant), NPG

According to the above table, the “P” value of the analysis showed a value of 0.047, which is <0.05, and the F value is 4.041. The overall model was significant it was significant at the level of $p < 0.05$, meaning that the probability of these results by chance is very low.

4.6. Innovation and Return on Assets

Table 15: Model summary for Innovation and Return on Assets

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.396 ^a	.157	.149	.54326

a. Predictors: (Constant), innov

Source: Primary Data

Multiple correlation “R” was 0.396. This says that there was a weak positive relationship between the independent variables and dependent variables. The R-square is 0.157. This indicated that 15.7 percent of the dependent variable had been described by the independent variables. Therefore, innovation impacts the return on assets of SMEs by 15.7 percent.

Table 16: Coefficients for Innovation and Return on Assets

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.777	.560		3.174	.002
	innov	.590	.128	.396	4.603	.000

a. Dependent Variable: ROA

Source – Primary Data

The regression model shows that the independent variable, innovation towards return on assets, has an unstandardized coefficient of 0.590. This means that around 59 percent of the variation in innovation towards return on assets can be explained by it.

Table 17: ANOVA for Innovation and Return on Assets

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.252	1	6.252	21.184	.000 ^b
	Residual	33.644	114	.295		
	Total	39.896	115			

a. Dependent Variable: ROA

b. Predictors: (Constant), innov

Source – Primary Data

According to the above table, the “P” value of the analysis showed a value of 0.000, which is <0.05 , and the F value is 21.184. The overall model was significant at the level of $p < 0.005$, meaning that the probability of these results by chance is very low.

4.7. The Mediating Effect of Innovation: Relationship Between Social Media Adoption and Return on Assets

This table appears to present the results of a regression analysis, likely investigating the relationship between variables X and Y, along with potential indirect effects.

Model: 4

Y: ROA

X: SoM

M: innovation

Sample

Size: 116

OUTCOME VARIABLE:

innov

Model Summary

R	R-sq	MSE	F	df1	df2	p
.3864	.1493	.1534	20.0071	1.0000	114.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	2.6395	.3744	7.0507	.0000	1.8979	3.3811



SoM	.3864	.0864	4.4729	.0000	.2153	.5575
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OUTCOME VARIABLE:

ROA

Model Summary

R	R-sq	MSE	F	df1	df2	p
.2673	.0714	.3553	4.3462	2.0000	113.0000	.0152

Model

	coeff	se	t	p	LLCI	ULCI
constant	2.3341	.6828	3.4182	.0009	.9813	3.6869
SoM	.1914	.1426	1.3426	.1821	-.0910	.4739
innov	.2712	.1426	1.9022	.0597	-.0113	.5536

***** DIRECT AND INDIRECT EFFECTS OF X ON Y *****

Direct effect of X on Y

Effect	se	t	p	LLCI	ULCI
.1914	.1426	1.3426	.1821	-.0910	.4739

Indirect effect(s) of X on Y:

Effect	BootSE	BootLLCI	BootULCI
innov	.1048	.0980	-.0203 .3573

The indirect effect of X (social media) on Y (Return on Assets) through the mediator variable (innovation) is 0. 1048.The bootstrapped standard error (BootSE) is 0.0980. The bootstrapped 95% confidence interval for the indirect effect ranges from -0.0203 to 0.3573, which includes zero, indicating that the indirect effect is not statistically significant at the 0.05 level.

The indirect effect of social media on ROA through the mediator variable (innovation) is not statistically significant. These results imply that while there may be a relationship between social media, innovation, and ROA individually, the relationship between social media and ROA may be mediated by the variable innovation, and this mediation effect is not statistically significant in this analysis.



The mediating effect of innovation: Relationship between social media adoption and net profit growth.

Model : 4

Y : NPG

X : SoM

M : innovation

Sample

Size: 116

OUTCOME VARIABLE:

innov

Model Summary

R	R-sq	MSE	F	df1	df2	p
.3864	.1493	.1534	20.0071	1.0000	114.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	2.6395	.3744	7.0507	.0000	1.8979	3.3811
SoM	.3864	.0864	4.4729	.0000	.2153	.5575

OUTCOME VARIABLE:

NPG

Model Summary

R	R-sq	MSE	F	df1	df2	p
.2167	.0470	.4812	2.7839	2.0000	113.0000	.0660

Model

	coeff	se	t	p	LLCI	ULCI
constant	2.5972	.7946	3.2686	.0014	1.0230	4.1715
SoM	.2038	.1659	1.2282	.2219	-.1249	.5324
innov	.2295	.1659	1.3837	.1692	-.0991	.5582

***** DIRECT AND INDIRECT EFFECTS OF X ON Y *****

Direct effect of X on Y

Effect	se	t	p	LLCI	ULCI
.2038	.1659	1.2282	.2219	-.1249	.5324

Indirect effect(s) of X on Y:

Effect	BootSE	BootLLCI	BootULCI
innov	.0887	.0909	-.0504 .3113

The indirect effect of X (social media) on Y (NPG) through the mediator variable (innovation) is 0.0887. The bootstrapped standard error (BootSE) is 0.0909. The bootstrapped 95% confidence interval for the indirect effect ranges from -0.0504 to 0.3113, which includes zero, indicating that the indirect effect is not statistically significant at the 0.05 level.

The direct effect of social media on net profit growth is not statistically significant, suggesting that there is no significant linear relationship between social media and NPG after accounting for the mediator variable (innovation). The indirect effect of social media on NPG through the mediator variable (innovation) is also not statistically significant. These results imply that while there may be a relationship between social media, innovation, and NPG individually, the relationship between social media and NPG may be mediated by the variable innovation, and this mediation effect is not statistically significant in this analysis.

5. DISCUSSION AND IMPLICATIONS

The study identified that there is a limitation of research, particularly in Sri Lanka, on the correlations between social media adoption as a marketing tool and the enhancement of performance by SMEs. To address this gap, the study focused on the effects of social media adoption by SMEs in the Galle district. Since SMEs constitute a large segment of the Sri Lankan economy, increasing their performance and productivity would significantly benefit the economy. Thus, this study attempted to fill the gap in research concerning social media adoption by SMEs in Sri Lanka.



This study aimed to examine how social media adoption impacts the perceived business performance of SMEs. A conceptual model was developed and then tested in this study. This was done by collecting statistical data through a questionnaire with Sri Lankan small- and medium-sized enterprises. The hypothesized effects between the constructs included in the conceptual model were then analyzed. These include social media adoption, innovation, and SMEs' perceived business performance.

Findings implied that the relationship between social media and return on assets (ROA) is mediated by the variable innovation, and this mediation effect is not statistically significant in this analysis. Social media's direct effect on net profit growth (NPG) is not statistically significant, suggesting no significant linear relationship exists between social media and NPG after accounting for the mediator variable (innovation). The indirect effect of social media on NPG through the mediator variable (innovation) is also not statistically significant. These results implied that the relationship between social media and NPG is mediated by the variable innovation, and this mediation effect is not statistically significant in this analysis. Therefore, it can be concluded that social media positively affects the ROA of SMEs in Sri Lanka. However, innovation has no mediation role in the relationship between social media adoption and the economic performance of SMEs.

5.1. Future Research Prospects

Future researchers can conduct further investigations to perform the same study with both nonfinancial and financial performance. Further, research can fulfil the role of moderating factors (ex., Leadership styles, environmental turbulence, type of industry, etc.) and can test the mediating effect of market orientation. On the relationship between social media adoption and SMEs' perceived business performance. The study is limited to the Sri Lankan context; another interesting study would be to conduct the same research on the growth of similar industries in different countries. Moreover, future researchers can conduct market orientation influence on SME innovation performance in the Sri Lankan context. Future investigations can



use a massive sample representing all districts and various industries (Perera & Samarakoon, 2021).

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