

Financial Literacy on Digital Banking and Financial Performance among Small and Medium- Sized Enterprises in Sri Lanka

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ABSTRACT

This study delves into how financial literacy shapes the relationship between digital banking and the financial performance of small and medium-sized enterprises (SMEs) in Sri Lanka. Quantitative data were gathered from 380 SMEs across nine provinces using a deductive approach. Utilizing SPSS, the study scrutinized how financial literacy moderates the connection between digital banking and SME financial performance. Results reveal a significant and positive moderating influence of financial literacy on this relationship. Furthermore, the study highlights the constructive impact of digital banking on SME development and financial performance in Sri Lanka. Importantly, participation in financial literacy programs provided by entrepreneurial support organizations emerges as a crucial factor in equipping SME owners with the requisite knowledge for making informed financial decisions. This research underscores the pivotal roles of financial literacy and digital banking in bolstering SMEs, advocating for their strategic utilization to elevate financial performance. Additionally, it fills an important gap in understanding by examining how mobile, digital, and digital banking affect SMEs in Sri Lanka. This emphasizes the crucial role of financial literacy in encouraging the adoption of digital banking and promoting SME growth in developing economies.

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1. Introduction

Small and Medium Enterprises (SMEs) are vital to Sri Lanka's economy, constituting more than 75% of businesses. These enterprises play a significant role in the nation's economic landscape, contributing over 20% to exports, engaging 45% of the workforce, and contributing approximately 52% to the GDP (Chipeta, and Muthinja, 2018). SMEs are pivotal in driving economic growth, enhancing productivity, creating job opportunities for young people, and aiding in poverty alleviation (Nishantha, 2018). Assessing financial performance, which is a subjective measure, becomes crucial for determining a firm's effectiveness in utilizing assets to generate revenue. For SMEs, this assessment extends to various business activities, including the adoption of digital methods like mobile money services and their access to financial instruments such as savings and micro-credit loans. This highlights SMEs' adaptability to digital trends and underscores the importance of financial services in their day-to-day operations (Maduwansha, 2022).

In response to global digital banking advancements, Sri Lankan institutions are swiftly embracing digital payment systems. The primary goal of these initiatives is to establish a new framework that reduces reliance on physical currency, as emphasized by Maduwansha et al. (2022). Notably, mobile technology has emerged as a potent platform for facilitating digital payments, leveraging the speed of mobile phones and the Internet. This transition holds particular significance amidst the COVID-19 pandemic, where the efficiency of mobile-based transactions has become paramount. The move towards digital payments is seen as a strategy to minimize inconvenience, lower transportation costs, reshape customer queuing patterns, and ultimately save time (Maduwansha et al. 2022).

Mobile money services have demonstrated substantial positive effects on the financial performance of Small and Medium Enterprises (SMEs) in diverse regions, such as Douala, Cameroon (Rofiat, 2017), and Nairobi (Mue, 2021). The implementation of these services, encompassing mobile banking and Point of Sale (POS) machines, has significantly improved the financial performance of SMEs. This emphasizes

the versatility of mobile solutions in tackling financial challenges encountered by Micro, Small, and Medium Enterprises (MSMEs) across different countries, as observed in the case of Indonesia (Priyadi, 2020).

According to Phinaonyekwelu et al. (2018), MSMEs experience notable improvements in financial performance through the utilization of Internet banking, online banking, ATMs, and mobile banking services. Similarly, in Kenya, Ogutu (2018) found a positive correlation between the financial performance of commercial banks and their utilization of online, ATM, agency, and mobile banking services. Moreover, the implementation of a mobile banking system has been shown to positively impact financial indicators and sales for Unguka Bank Ltd. (Harelimana, 2017). Financial literacy plays a crucial role in empowering entrepreneurs to make informed financial and investment decisions, thereby enhancing company performance. In the entrepreneurial business landscape, entrepreneurs encounter various challenges that can be addressed through financial education. Numerous studies, including Menike (2019), underscore the importance of a solid financial foundation for entrepreneurial success.

The existing body of evidence strongly suggests that digital banking significantly influences financial performance, while concurrently, financial literacy plays a pivotal role in shaping financial outcomes. Proficiency in financial matters and the ability to make informed financial decisions directly impact access to finance, thereby fostering business growth. It can be argued that financial literacy has both direct and cyclical effects on the sustainability of enterprises. Despite numerous studies examining the effects of mobile banking, digital banking, and digital economy activities on financial performance through direct investigations, a notable gap persists. Many of these studies have tended to focus on various business types without specifically delving into the realm of Small and Medium Enterprises (SMEs), often overlooking interaction variables. In the Sri Lankan context, there is a conspicuous absence of research exploring the relationship between digital banking and SME financial performance. This study aims to bridge this gap by investigating the interconnection between digital banking and SME

financial performance in Sri Lanka. Additionally, the study seeks to explore the moderating role of financial literacy, thereby providing novel insights into both direct and indirect associations. By undertaking this research, the study endeavors to address the knowledge gap and offer valuable perspectives on the intricate dynamics between digital banking, financial literacy, and the sustainability of SMEs.

This study is grounded in the Innovation Diffusion Theory (Robertson, and Tengeh, 2020), 1962), which underscores how the characteristics of innovation influence its adoption and successful implementation (Robertson, and Tengeh, 2020). Additionally, it draws upon the Resource-Based View theory (Bigger, 1984), which posits that the utilization of technology and financial performance are contingent upon the financial knowledge and behavior of entrepreneurs. The findings of this study reaffirm and validate these theoretical frameworks.

This study delves into whether financial literacy moderates the relationship between digital banking and the financial performance of SMEs in Sri Lanka. Its main aim is to investigate how financial literacy influences the connection between digital banking and SME financial performance. Specific objectives include examining the direct relationship between digital banking and SME financial performance, and evaluating how financial literacy moderates this relationship. The study aims to provide insights into the complex dynamics between digital banking and financial literacy in the context of SMEs in Sri Lanka. The study commences with a review of pertinent literature to pinpoint research gaps and delineate research questions and objectives. The subsequent section delves into the literature on financial performance, digital banking, and financial literacy, examining empirical studies and introducing the conceptual framework and hypotheses. Following this, the third section involves data analysis using SPSS and Excel, presenting findings, and addressing objectives. Finally, the last section provides recommendations and proposes potential avenues for future research.

2. Literature Review

The emergence of technological innovations has

fueled the proliferation of electronic payment systems, enabling the exchange of goods and services without the need for physical currency (Maduwansha et al. 2022). The payment landscape is undergoing rapid transformation due to the growing adoption of digital payment alternatives.

In Sri Lanka, a variety of digital options such as Internet banking, mobile banking, and Point of Sale (POS) terminals are widely available. Globally, prominent digital channels include mobile banking, Internet banking, telephone banking, electronic cards, implants, POS terminals, and ATMs (Duncan, et al.2019). Financial performance refers to evaluating an organization's capacity to attain projected financial objectives in contrast to its intended targets (Frimpong et al. 2022). It acts as an internal measure of how efficiently a business employs its resources to generate profits, providing a glimpse into the overall financial well-being within a defined timeframe (Jensen et al. 2018).

Frequently utilized metrics encompass Return on Equity, Return on Assets, Return on Capital, Return on Sales, and Operating Margin (Gilchris, 2013). Financial literacy, as defined by Korutaet, encompasses the knowledge and cognitive skills necessary for effective financial management and decision-making. It is considered vital for entrepreneurs, particularly in the context of Small and Medium Enterprises (SMEs).

2.1. Theoretical Perspectives

The concept of diffusion, defined as the communication of innovation through channels over time within a social system (Robertson and Tengeh (2020) is crucial in understanding the transition from conventional to digital payment services. Del Gaudio et al. (2020) assert that the diffusion of financial technologies positively influences the performance of financial institutions. Advances like ATMs, mobile banking, and Internet banking exemplify progress in the banking sector (Nkem et al. 2017).

Robertson, and Tengeh (2020) Innovation Diffusion Theory (1962) further supports the idea that technological developments impact financial performance, making it plausible to explore the effect of digital banking adoption on SMEs'

performance. The Resource-Based View (RBV) theory asserts that a firm's competitive advantage and performance hinge on both tangible and intangible resources, with financial literacy being classified as an intangible resource. According to this perspective, financial literacy acts as a knowledge resource crucial for determining the sustainability and success of SMEs (Ye and Kulathunga, 2019).

2.2. Empirical Perspectives

Research on mobile banking, digital banking, and Internet banking has predominantly concentrated on developed countries. Yoshino et al. (2020) demonstrate a notable link between enhanced financial literacy, cryptocurrency purchases, and increased utilization of fintech services. Samkin et al. (2014) delve into the significance of financial literacy for the success of small businesses, specifically examining the impact of secondary accounting education. Analysing the effect of payment methods on real GDP, Maduwansa, and Boyagoda (2023) observe immediate repercussions for cards, e-money, and checks. In their investigation of Japan, Maduwansa, and Boyagoda (2022) explore the influence of financial literacy and behavioural traits on the adoption of electronic payment services.

The study by Nwankwo et al. (2022) demonstrates the positive impact of financial literacy on the behaviour and financial performance of SMEs. Notably, Internet banking, automated teller machine services, and crowdfunding significantly contribute to entrepreneurship development. The research affirms that channels facilitating a digital economy play a crucial and positive role in fostering entrepreneurship development. In a related context, Okello et al. (2017) find that financial literacy significantly moderates the association between financial access and SME growth in developing economies. Building on the Resource-Based View (RBV) framework, Adomako et al. (2016) propose that financial literacy enhances the relationship between access to finance and company growth, strengthening its significance.

Studies affirm a positive correlation between financial knowledge and business performance (Kumari et al., 2021). In Sri Lanka, enhanced

financial literacy significantly impacts the performance of sampled businesses, offering owners the potential to enhance outcomes (Anuradha,2021). Notably, financial literacy, financial influence, and financial behaviour play a crucial role in positively influencing firm performance, whereas financial institutions show no statistically significant relationship with SME performance (Menike, 2019).

Further, digital banking, facilitated by financial technologies like fintech payment gateways and m-wallet payments, plays a crucial role in enhancing the financial performance of SMEs. As Ketut, et al. (2023) digital society moderates the positive impact of fintech payment gateway on the financial performance of SMEs in Denpasar City, as indicated in the research. Furthermore, Taibat, et al. (2022) evident that the usage of Financial Technologies (FinTech) in SMEs positively impacts financial performance, including customer satisfaction, retention, turnover, and profitability, as shown in the study. Additionally, the presence of a digital society can moderate and strengthen the positive effects of payment gateways on SMEs' financial performance. E-finance transformation through m-wallet adoption impacts SMEs' financial performance positively by promoting digital transactions, enhancing perceived value, and improving technology infrastructure, (see Eniola and Entebang (2015). However, challenges such as inadequate e-payment facilities and lack of IT skills can hinder the effectiveness of digital policies on SMEs in certain regions. Overall, embracing digital banking through fintech solutions can lead to improved financial and non-financial performance for SMEs, making it a vital aspect of modern business operations.

3. Hypothesis Development

Mobile money services have a significant positive impact on the financial performance of SMEs, as noted by Robertson and Tengeh (2020). Additionally, Internet/online banking, automated teller machine services, and mobile banking services significantly and positively influence the performance of Micro, Small, and Medium Enterprises (MSMEs), as highlighted by Robertson and Tengeh (2018). Accordingly following hypothesis is formulated and tested using the SMEs in Sri Lanka.

H₁: There is a significant relationship between digital banking and the financial performance of SMEs in Sri Lanka.

According to the Resource-Based View (RBV), financial literacy and technology literacy as intangible resources influencing SME performance (Das and Teng, 2000). Financial literacy is recognized as a tool for businesses to gain a competitive edge (Abdulsaleh, 2013). Digital payments are influenced by financial literacy, with higher levels correlating with increased adoption of digital transactions (Świecka, 2018). Financial knowledge, a component of financial literacy, is a crucial determinant of payment choices, positively impacting the quality of life and contributing to sustainable development (Świecka et al. 2021). Additionally, studies indicate that mobile banking and point of sales (POS) machine services significantly enhance the financial performance of SMEs (Rofiat, 2017; Robertson et al. 2020). Consequently, the following hypothesis was developed and tested.

H₂: Financial literacy moderates the relationship between digital banking and the financial performance of SMEs in Sri Lanka.

In testing the moderating effect of financial literacy between digital banking and financial performance our model has used control variables such as size, firm age, and firm industry as per Haleem (2022). Control variables are factors that are held constant. These variables help researchers isolate the effect of the independent variable(s) on the dependent variable.

4. Methodology

This study adopts a positivist and deductive approach. Primary data collection was conducted using a structured questionnaire which indicates a predominant focus on quantitative analysis, utilizing the mono-quantitative technique. Required secondary data was gathered using survey data from the Department of Census and Statistics during (2013/2014). It is deemed the most reliable source for current SME information, particularly in the non-agricultural sector. According to the database, there are a total of 1,017,267 SMEs categorized as micro, small, and medium enterprises in Sri Lanka. This extensive

dataset provides a robust foundation for the quantitative analysis necessary to effectively address the research objectives.

Out of the 1,017,267 SMEs in Sri Lanka, the research opts for a sample size of 385, which is deemed adequate at a 95% confidence level. A convenience sampling approach, a non-probability sampling method, is employed. The study adopts a cross-sectional research design, gathering data from 385 SMEs spread across nine provinces. Despite receiving 409 responses, 29 were non-responsive, leaving 380 valid responses (99%). This high response rate enhances the data's reliability, ensuring precise estimates of the wider SME population.

In this study focusing on Sri Lankan SMEs, Google Forms facilitated the distribution of questionnaires, utilizing an online survey format for primary data collection. Before questionnaire creation, variable reconciliation and indicator identification were conducted. Digital banking was assessed through indicators such as payment methods, fund transfers, loans, credit card usage, and account balance inquiries, following methodologies outlined by Muchiri (2018). This systematic approach ensures a comprehensive evaluation of digital banking practices among the surveyed SMEs.

Financial performance is evaluated using indicators including profitability growth returns on assets (ROA), sales growth, revenue, and expansion were utilized, drawing from methodologies employed by Okello et al. (2017). Consequently, the structured questionnaire has included five items covering each performance indicating areas to measure the financial performance of the SMEs. As we have used seven-point Likert scale questions, really SME owners' perceptions of financial performance have been tested in alignment with the dimensions identified by Miroga et al. (2018), Vansang et al. (2021), and Okello et al. (2017). Financial literacy was measured through criteria such as financial knowledge, financial behavior, savings habits, financial attitude, and investment practices, based on frameworks outlined by Okello et al. (2017) and Menike (2019). Questionnaire items were rated on a seven-point Likert scale, and the study demonstrated reliability and validity. The results,

with Cronbach's alpha coefficients of 0.815, 0.816, and 0.870 for digital banking, financial literacy, and financial performance, respectively, indicated robust internal consistency. Additionally, Bartlett's test of sphericity confirmed the significance of the factor analysis, with a variance of 47.403%, reassuringly below 50%, indicating the absence of common method bias in the study.

5. Findings and Discussion

5.1. Correlation Analysis

The correlation analysis in Table 6 reveals strong, positive, and significant associations: between digital banking and financial performance ($r = 0.621$, $p = 0.001$), financial performance and financial literacy ($r = 0.754$, $p = 0.001$), and financial literacy and digital banking ($r = 0.617$, $p = 0.001$). These robust relationships underscore the interplay between digital banking, financial performance, and financial literacy, emphasizing their interconnected nature in the context of SMEs in Sri Lanka.

Table 01
Correlation Analysis Summary

	Digital Banking [CB]	Financial Performance [FP]	Financial Literacy [FL]
CB	1.000		
FP	0.621**	1.000	
FL	0.617**	0.754**	1.000

** Correlation is significant at the 0.01 level (2-tailed)
Source: survey data (2023)

5.2. Hypotheses Testing

5.2.1. Digital Banking on Financial Performance

To ascertain the impact of digital banking on the financial performance of SMEs in Sri Lanka, the researcher conducted a regression analysis. The regression equation representing this relationship is expressed as follows:

$$\hat{Y} (DV) = \beta_0 + \beta_1 (IV) \quad (1)$$

Findings are presented in the following tables:

Table 2
Model Summary for Regression Analysis

Model	R	R square
1	0.621	0.386

Source: Survey Data (2023)

Table 3
ANOVA^a for Regression Analysis

Model		Sum of Squares	Sig.
1	Regression	146.228	<.001
	Residual	232.772	
	Total	379.000	

Source: Survey Data (2023)

Table 4
Coefficients for Regression Analysis

Model	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
1	-1.449E-16	.040	.000	1.000
	.621	.040	15.410	<.001

Source: Survey Data (2023)

The identified independent variables (R^2), explain 38.6% of the variance in the impact of digital banking on SME performance, leaving 61.4% attributed to unexplored factors. ANOVA results in Table 3 reveal a highly significant relationship ($p = .001$, $p < 0.005$) between digital banking and financial performance. Additionally, the coefficients in Table 4 further confirm the significance of the independent variable, with a p-value of .001 ($p < 0.005$). These results underscore that digital banking significantly influences financial performance ($B = 0.621$), providing valuable insights into the statistical significance of the relationship in the context of SMEs in Sri Lanka. Therefore, Hypothesis H_1 is accepted.

5.3. Moderator Analysis for Financial Literacy

This study employed hierarchical regression analysis to examine the association between digital banking and financial performance, incorporating the proposed moderating effects of financial literacy. The resulting hierarchical regression equation is represented as:

$$\hat{Y} (DV) = \beta_0 + \beta_1 (IV) + \beta_2 (M) + \beta_3 (Interaction) \quad (2)$$

Findings are presented in the following tables:

Table 5
Model Summary for Moderator Analysis

Model	R	R square	Adjusted R square	Std. Error of the Estimate	R square change	Sig. change
1	0.780	0.608	0.606	0.628	0.608	<.001
2	0.791	0.625	0.622	0.614	0.017	<.001

Source: Survey Data (2023)

Table 6
ANOVA^a for Moderator Analysis

Model		Sum of Squares	F	Sig.
1	Regression	230.321	292.008	<.001
	Residual	148.679		
	Total	379.000		
2	Regression	236.837	208.800	<.001
	Residual	142.163		
	Total	379.000		

Source: Survey Data (2023)

Table 7
Coefficients for Moderator Analysis

Model		Unstandardized Coefficients	Standardized Coefficients	t	Sig.
		B	Beta		
2	(Constant)	0.75		2.069	1.000
	CB	0.201	0.201	4.804	<.001
	FL	0.599	0.599	14.932	<.001
	Interaction	-0.122	-0.140	-4.151	<.001

Source: Survey Data (2023)

The increasing magnitude of the effect across levels reveals a negative and significant interaction effect between financial literacy and digital banking ($b = -0.122$, $p < 0.01$).

The R² change, denoted in Table 5, is 0.017, indicating a significant moderating impact of financial literacy on the relationship between digital banking and SME financial performance.

The ANOVA table (Table 6) highlights the significance ($p = 0.001$, $p < 0.05$) of this moderating effect. Both Models 1 and 2, with $p = 0.001$ ($p < 0.05$) in Table 7, further affirm the substantial moderation of the association between digital banking and financial performance by financial literacy.

Consequently, Hypothesis H_{2a} is accepted. In Figure 1, the interaction plot depicts the dynamic relationship between financial literacy, access to

digital banking, and SME financial performance in Sri Lanka.

At lower levels of financial literacy, there is a gradual increase in digital banking utilization, which is accompanied by an improvement in financial performance. As financial literacy levels rise to an intermediate range, there is a corresponding incremental increase in both digital banking use and financial performance.

Interestingly, at higher levels of financial literacy, the increase in digital banking usage leads to a relatively modest enhancement in financial performance.

5.4. Control Variable Analysis

5.4.1. Firm Size and Financial Performance

In the field, the highest financial performance level

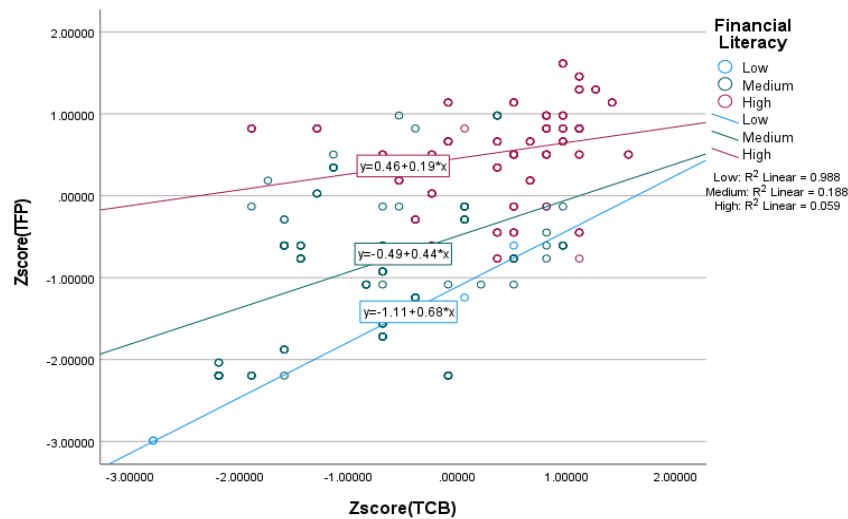


Figure 1: Financial Literacy on Digital Banking and Financial Performance in SMEs
 Source: Author Survey Data (2023)

is reported among SMEs with 11 to 50 employees. Surprisingly, SMEs with 51–300 employees exhibit the lowest mean at 4.39; however, the one-way ANOVA test indicates statistical significance. ($F = 6.244, p = 0.002$). This suggests a substantial variation in financial performance among employee categories, implying that, with 95% confidence, at least one group's mean differs from the others, as illustrated in Table 8.

shows the lowest mean at 4.10. Early-stage ventures/SMEs life cycle theory focuses on understanding how organizations evolve from inception to initial growth phases. The life cycle theory emphasizes different aspects such as the growth analogies to biological organisms, the influence of life cycle stages on financing decisions, and the venturing process from initiation to development, (Verma, et.al. 2021). Additionally,

Table 8
One-way ANOVA for Number of Employees

No. of Employees	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean	
					Lower Bound	Upper Bound
1 - 10	285	4.800	1.293	0.077	4.640	4.950
11 - 50	27	5.360	0.845	0.163	5.030	5.700
51 - 300	68	4.390	1.148	0.139	4.120	4.670
Total	380	4.760	1.260	0.065	4.640	4.890
F	6.244					
Sig	0.002					
N	380					

p < .05

Source: Survey Data (2023)

5.4.2. Firm Age and Financial Performance

In the business field, the highest financial performance level is observed among SMEs operating for 6 to 10 years, with a mean of 4.98 and a standard deviation of 0.990. Conversely, the firm

age group with more than 20 years in business as Swati (2015) states, the agency theory's relevance in explaining the venture capital-entrepreneur relationship at different stages. Consistent with these theories the findings of the study indicate that communication patterns in

early-stage ventures evolve towards decentralization as organizational maturity is reached, showcasing the importance of adaptability and resilience. Hence, as the venture/SME approach to exit age declining a growth can be evident. However, the one-way ANOVA test indicates statistical significance ($F = 7.003$, $p = 0.001$). This suggests a notable variation in financial success among different business age categories, indicating, with 95% certainty, that at least one group's mean differs from the others as

Surprisingly, the trade sector exhibits the lowest mean at 4.17; however, the one-way ANOVA test indicates statistical significance ($F = 21.981$, $p < 0.001$). This implies a significant difference in financial performance among different industry categories, asserting, with 95% confidence, that at least one group's mean differs from the others, as depicted in Table 10.

5.4.4. Digital Banking and Financial Performance

Table 9
One-way ANOVA for of Number Years in Business

Number Years	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean	
					Lower Bound	Upper Bound
Less than 5	204	4.850	1.298	0.091	4.680	5.030
6 - 10	107	4.980	0.990	0.096	4.790	5.170
11 - 20	24	4.280	1.229	0.251	3.760	4.800
More than 20	45	4.100	1.420	0.212	3.680	4.530
Total	380	4.760	1.260	0.065	4.640	4.890
F	7.003					
Sig	< .001					
N	380					

p < .05

Source: Survey Data (2023)

Table 10
One-way ANOVA for of Number Years in Business

Firm Industry	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean	
					Lower Bound	Upper Bound
Manufacturing	176	5.140	1.147	0.086	4.960	5.310
Service	93	4.770	1.300	0.135	4.500	5.030
Trade	111	4.170	1.179	0.112	3.950	4.400
Total	380	4.760	1.260	0.065	4.640	4.890
F	21.981					
Sig	< 0.001					
N	380					

p < .05

Source: Survey Data (2023)

depicted in Table 09.

5.4.3. Firm Industry and Financial Performance

In the field, the highest financial performance level is observed in the manufacturing sector, with a mean of 5.14 and standard deviation of 1.147.

Previous studies have shown a consistent positive correlation between the adoption of mobile banking technologies and the financial performance of SMEs across various regions. Harelimana (2017) found that mobile banking systems positively impacted financial performance indicators of businesses, leading to increased revenue over time and that the significant impact of

mobile money services on SME turnover, with these services contributing to approximately 73% of the variance in turnover once implemented. Similarly, Nthenya (2014) concluded that mobile money transfer services improved SMEs' financial performance by enhancing business growth, service delivery efficiency, access to financial information, and overall convenience.

Rofiat (2017) highlights the positive effects of digital banking platforms, including mobile banking and point-of-sale systems, on SME financial performance. These platforms were found to contribute significantly to sales growth, efficiency, and reliability in financial transactions for SMEs. Ngaruiya et al. (2014) emphasized the benefits of mobile financial transactions, particularly in reducing transaction costs and improving sales income for SMEs.

Research conducted by Hasan et al. (2012) examined the broader economic impact of digital payment adoption in European countries. They found that efficient electronic retail payment systems promote commerce, consumption, and overall economic growth. Furthermore, Chipeta and Muthinja (2018) demonstrated the positive impact of financial innovation, particularly in mobile banking and ATMs, on bank performance in Kenya. Nishantha. (2018) also highlighted the significant role of credit card financial innovation in improving bank profitability. In summary, these studies collectively support the notion that the adoption of digital banking technologies, including mobile banking and other electronic payment systems, positively influences both SME financial performance and broader economic growth.

5.4.4. Financial Literacy on Digital Banking and Financial Performance

The study predicts that financial literacy plays a less significant moderating role in the relationship between digital banking and the financial performance of SMEs in Sri Lanka.

Numerous earlier studies provide evidence of the positive effects of digital banking on SME financial performance. Rofiat (2017), Mue (2021), Priyadi (2020), Phinaonyekwelu and Chinwe (2018) all demonstrate the beneficial impact of adopting digital banking technologies on financial performance.

Similarly, financial literacy has been consistently shown to positively influence financial performance in previous research. Kumari et al. (2021) provide evidence of this relationship, with studies demonstrating that financial literacy positively affects SME success by enhancing financial behavior, knowledge, and management skills.

Moreover, Eniola, and Entebang (2015) explore the moderating role of financial literacy in various contexts. Further, demonstrates that financial literacy moderates the relationship between overconfidence bias and investment choices, while Abiodun, (2015) show that financial literacy moderates the relationship between risk aversion and risky investment behavior.

Furthermore, Delgadillo, (2014) investigates the moderating effect of financial literacy on the relationship between fintech adoption and MSME financial performance. The findings suggest that financial literacy significantly moderates this relationship, confirming the positive impact of fintech on financial performance, particularly when combined with high levels of financial literacy. Overall, these studies collectively emphasize the importance of both digital banking adoption and financial literacy in enhancing SME financial performance, with financial literacy acting as a significant moderator in various contexts.

6. Conclusion

The study unveils a robust correlation between digital banking and the financial prosperity of SMEs in Sri Lanka, suggesting that heightened adoption of digital banking could bolster SME financial performance. Furthermore, regression analysis confirms that financial literacy significantly shapes the utilization of digital banking by SMEs in the country. By comprehensively addressing the research topic, the study effectively achieves its objectives. Moreover, the findings underscore the vital role of owner-managers in financial decision-making processes, including financing options, budgeting, costing, and production decisions. Enhanced financial knowledge among SME owner-managers can substantially boost productivity, market share expansion, and sales revenue, ultimately fostering business growth, sustainability, and

competitiveness. These insights serve as a valuable guide for owner-managers of SMEs in attaining their objectives and ensuring success.

The study advocates for a strong emphasis on improving financial literacy among SME owners, highlighting the positive impact of leveraging digital banking on their financial performance. Additionally, from a theoretical perspective, the research extends the Resource-Based View (RBV) theory by emphasizing the pivotal role of financial literacy in SME performance and sustainable financial success. It introduces financial literacy as an intangible asset aligned with RBV, enriching the understanding of factors influencing sustainable financial performance.

Drawing on the Innovation Diffusion Theory, the study examines how innovation qualities, particularly in digital banking, affect SME performance. The findings support the theory's premise, emphasizing the significant influence of digital banking on SME financial performance. The study concludes by recommending increased funding for economic and entrepreneurial education in national education systems, providing valuable insights for policymakers striving to enhance financial literacy and technology adoption among SMEs.

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