

## **Effect of ICT Strength on Transaction Cost and Business Performance: An Empirical Investigation of SMEs in Sri Lanka**

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The development of the SME sector is a challenging process which records a high failure rate. Many scholars have highlighted that SMEs are not equipped with sufficient knowledge and information to make rational decisions compared to large firms. Therefore, they suffer the hazard of opportunism and lead to generate Transaction Cost (TC), which discourages firms' Business Performance. Since ICT is able to assist in finding solutions to safeguard their transactions to improve business performance, this study explores the prospects of utilizing ICT on TC and the business performance of SMEs in Sri Lanka. The conceptual research model contained the independent variable, ICT strength and the dependent variable, the business performance of SMEs, while using TC as a mediator for developing and testing hypotheses using quantitative method. A sample of 400 manufacturing SMEs was selected from 81,531 SMEs in Sri Lanka by applying the Inverse Square Root Method. Pre-tested structural questions were used for data collection. Partial Least Square - Structural Equation Modelling (PLS-SEM) was used to analyze the data using SmartPLS V3. The dimension of ICT strength has a significant negative impact on TC-related determinants and assumptions, except for transaction frequency. These dimensions have had a negative impact on the TC and yet made a significant positive impact on the business performance. Uncertainty, asset specificity, bounded rationality, and opportunism negatively have impacted the business performance of SMEs, while transaction frequency was affected positively. TC did not significantly impact on business performance of SMEs. ICT strength substantially reduces the TC, and TC as a mediating variable makes neither a significant effect directly on the business performance nor on the relationship between ICT Strength and SME business performance. The study strongly recommends that SMEs reinforce their ICT strengths, especially mobile technology, with applications which can assist in minimizing the impact of TC and its related factors. The study obtained a large explanatory ability by examining all the dimensions of ICT strength, TC, and business performance that have not been studied yet. The experiment on mediating effect of TC and related factors also made a unique contribution. Research establishes a new theoretical foundation for Transaction Cost Economics (TCE) by introducing ICT strength as a new governing structure of TC.

**Keywords:** Business Performance, ICT Strength, SME, Transaction Cost