Impact of Digital Transformation on Employees' Job Performance with Self-Efficacy as a Mediator in the Banking Industry in Kandy District, Sri Lanka

M. M. W. G. S. L. Moremada[1] and Anuja Raveenther[2]

[1,2]Department of Business and Management Studies, Faculty of Communication and Business Studies, Trincomalee Campus, Eastern University, Sri Lanka.

[1]sewminilakshika20@gmail.com, [2]anujar@esn.ac.lk,

Abstract: In the twenty-first century, digital transformation has emerged as a key driver of competitiveness in the banking sector by enabling improved efficiency, service delivery, and customer experience through technologies such as artificial intelligence, online banking platforms, and automation systems. This study examines the impact of digital transformation on employee job performance in Sri Lanka's banking sector, with a specific focus on state-owned banks in the Kandy District. In addition, the study investigates the mediating role of self-efficacy in this relationship. The Kandy District was selected due to its significance as a major regional financial hub in Sri Lanka, hosting both state-owned and private banking institutions that actively implement digital banking initiatives. Despite this rapid adoption of digital technologies, limited empirical evidence exists on how these transformations influence employee job performance at the regional level, particularly in developing-country banking contexts. Most existing studies focus on customer adoption or technological outcomes, while insufficient attention has been given to employees' psychological readiness, especially self-efficacy, in shaping performance outcomes during digital transformation. This creates a clear research gap that this study aims to address. A quantitative, cross-sectional survey design was employed, and primary data were collected from 241 employees out of 256 targeted respondents in selected state-owned banks. The study utilized structured questionnaires with validated scales, and data were analyzed using descriptive statistics, reliability and validity testing, correlation and regression analysis, and mediation analysis using Hayes' PROCESS Macro Model 4. The findings reveal that digital transformation has a significant positive relationship with employee job performance. Furthermore, self-efficacy was found to partially mediate this relationship, indicating that employees' confidence in their digital capabilities strengthens the effectiveness of digital transformation initiatives on performance outcomes. The results highlight that technological investments alone are insufficient unless accompanied by strategies that enhance employee self-efficacy through training, support systems, and user-friendly digital environments. This study contributes to existing literature by providing contextual evidence from Sri Lanka's banking sector and extending understanding of the psychological mechanisms underlying digital transformation and employee performance relationships. It also offers practical implications for policymakers and bank managers to improve digital adoption strategies by focusing on employee capability development and psychological empowerment.

Keywords: *Banking Sector, Digital Transformation, Job Performance, Self-Efficacy, Sri Lanka*

Background of the Study

Digital transformation is reshaping the banking sector by enabling more efficient, customer-centric services through tools such as online banking platforms, AI-driven decision systems, Customer Relationship Management, and automation. In Sri Lanka, banks are accelerating digital adoption to meet rising customer expectations and improve operational effectiveness, yet improving employee job performance remains a challenge. Successful digitalization requires not only technological investment but also strong employee self-efficacy to adopt and use new systems. Prior studies indicate that digital initiatives improve performance by fostering knowledge sharing, task automation, and innovation across industries (Abdelaziz & Naama, 2023; Haq et al., 2024; Abdul et al., 2024). Self-efficacy often mediates the relationship between digital transformation and job performance: employees with higher confidence in their digital skills adapt more rapidly, manage workloads better, and sustain productivity (Annisa et al., 2024). In Kandy District, both state-owned banks (e.g., Bank of Ceylon, People's Bank) and private banks (e.g., Commercial Bank, HNB, Sampath) are adopting digital systems across customer-facing and back-office functions, affecting roles and performance. The Kandy District was selected due to its significance as a major regional financial hub in Sri Lanka, hosting both state-owned and private banking institutions that actively implement digital banking initiatives. Despite this rapid adoption of digital technologies, limited empirical evidence exists on how these transformations influence employee job performance at the regional level, particularly in developing-country banking contexts. Poorly managed digital change can increase stress and resistance, harming productivity, while well-planned strategies that combine technology, training, and support enhance job performance. This study examines the impact of digital transformation on bank employees' job performance in Kandy District and investigates self-efficacy as a mediator to provide contextual empirical evidence and practical guidance for effective digital implementation.

Research Problem

The banking sector in Sri Lanka plays a critical role in national economic development, yet empirical research on how digital transformation affects employee job performance within this context remains limited. International studies indicate positive links between digital initiatives and employee outcomes—such as Abdelaziz & Naama (2023) in Egypt's hospitality sector, Mustofa & Cahyono (2022) in Indonesia, and Haq et al. (2024) in service industries—but these findings have not been sufficiently localized. Existing literature disproportionately emphasizes customer adoption and technological readiness, while overlooking employees' behavioral and psychological responses to digital change. In particular, the mediating role of self-efficacy and the influence of organizational culture and digital capabilities on employee performance are underexplored in Sri Lankan banks. This study addresses this gap by investigating the impact of digital transformation on employee job performance in Sri Lanka's banking sector, with a specific focus on the mediating effect of self-efficacy and contextual organizational factors.

This study aims to address these gaps by examining how digital transformation impacts on job performance with self-efficacy as a mediator in banks in Sri Lanka. offering valuable insights and evidence-based recommendations for employers and HR professionals. Thus, with limited studies digital transformation on job performance in the new normal, the objectives of the Study are:

- To evaluate how a digital transformation influences employee job performance in the banking sector in Kandy district, Sri Lanka.
- To explore the mediating role of self-efficacy in the relationship between digital transformation and employee job performance in the banking sector in Kandy district, Sri Lanka.

Literature Review

Digital Transformation

Digital transformation is a computerized shift, an idea that was quickly introduced to the world via the internet and is becoming more and more visible recently, demonstrating the application of cutting-edge innovation to all areas of organizations. "Digital transformation" is a key term that has been used constantly and is mentioned more frequently from the organizational level to the ministries, sectors, and countries in recent years. This movement will have a significant impact on how a business operates, improve collaboration productivity, upgrade work proficiency, and carry value to clients. In recent years, the majority of businesses and managers have been concerned about the effects of digital transformation.

Early studies by Ceipek et al., (2021)focused on Digital transformation is being viewed as a vita; strategic priority with the rapidly changing business environment of today. When attempting to improve operating effectiveness, organizational effectiveness and customer value generation, it includes implementing new digital advances into every area of an organization, including business models, processes and products. Digital transformation is the determined and useful applications of digital technological innovation to improve competitiveness and corporate growth. Modern technologies such as social media, big data, cloud computing, the internet of services, digital twins, artificial intelligence (AI), and the Internet of Things have significantly transformed the industrial economy and continually expanding how business process in the digital era (Qiao et al., 2024).

The impact of digital transformation on employees and the job market widely well known. Research on digital transformation from a perspective that prioritizes humans was conducted by Eger et al., (2023) who emphasized the human evolution by connecting communication, fear administration and ICT self-efficacy with a generational collaboration approach. High ICT self-efficacy employees are fewer in doubt, more closer to digital transformation consumers and more ready to respond to swiftly changing environment, all of these contribute to developing an employee base that is more durable and flexible both currently and future.

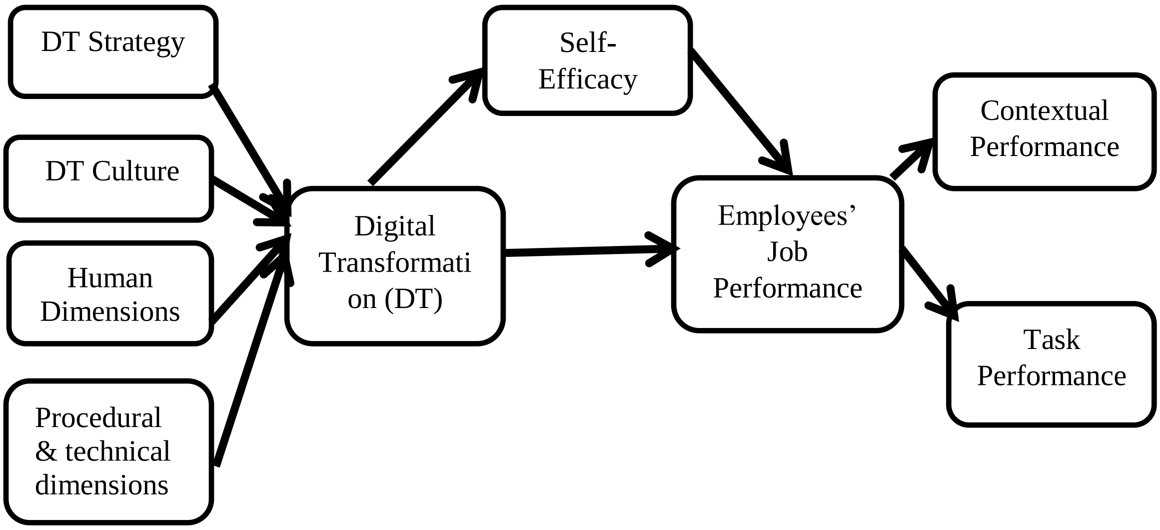
Job Performance

Employee performance is the degree of success and accomplishment as well as the outcome of an individual's efforts, which are measured by quality, quantity, cooperation, and how time is used at work. Good employee performance and a high-quality workforce can be shaped by effective human resource management (Taopiq & Fuziyati,2024). Connecting leadership to employee performance and emotional attachment, especially in a setting that is fast digitizing and where leadership is significantly more important for sustaining employee commitment and engagement, similarity Qiao et al., (2024). Employees generate competitive advantages so that firms can compete in the business sector. Employees are viewed as assets by organizations because they contribute significantly to the accomplishment of the organization's goals through the efficient performance of their work duties. Since employee performance is a key factor in the commercial development and continued success of every organization, it is also used to assess the company's results and efficiency (Freundt Daneri&Ortiz Pérez, 2024). In a similar way, Inuwa et al., (2017)describe employee job performance as the culmination of employees' shown effort or dedication to delivering the expected value and completion of tasks within the company's time and procedural standards. It is enough to say that an employee performs their work well if they follow the rules or due process and satisfy expectations in a timely and efficient manner. According to, Davidescu et al., (2020) it makes sense for employee work performance to serve as the standard for promotions, layoffs, incentives, penalties, evaluations, and compensation modifications.

Self-efficacy

According to Bandura (1977), self-efficacy is a positive psychological construct that describes people's confidence in their capacity for success. Success is attributed to personal effort by individuals who believe they are efficient and to other forces by those who believe they are not (Malureanu et al., 2021). Examining Errichiello and Pianese,(2021), remote workers' behaviors and expectations in connection to organizational assistance, as well as mobile work and virtual teams. Effective digital work strategies have favored "smart" culture. Future the way that workers who depend on various distant work arrangements based on the "space" dimension perceive organizational assistance .In order to encourage an individual to improve his performance, self-efficacy must be followed by the information, expertise, skills, resources, and opportunities that the individual possesses. Khaery et al., (2024) according that. Self-efficacy is defined as a person's confidence in their ability to complete a task and meet demands in a given environment by Bandura, (1977) originally defined.

Conceptual Framework of the Study



Research Methodology

This study adopts a quantitative research design to examine the impact of digital transformation on employees' job performance, with self-efficacy as a mediating variable. The research design outlines systematic procedures for data collection and analysis to address the research problem logically and effectively. A structured questionnaire using a five-point Likert scale (ranging from strongly disagree to strongly agree) was used to collect primary data. The instrument consisted of 35 items measuring digital transformation dimensions and job performance, along with demographic questions. Digital transformation was assessed through four dimensions: strategy, culture, human, and technical aspects, while job performance included task and contextual components. Data were analyzed using SPSS to generate both descriptive and inferential statistics. The study was conducted as a field study in a natural, non-controlled environment within the banking sector in Kandy, Sri Lanka. It followed a cross-sectional time horizon, with data collected over a three-month period. The type of investigation was correlational, focusing on identifying relationships among variables rather than establishing causality. The unit of analysis was individual bank employees.

Primary data were gathered from employees of five banks—two government and three private institutions—selected for their active involvement in digital transformation. The target population consisted of 710 employees, from which a sample of 256 respondents was determined using the Slovin formula. A stratified random sampling technique ensured proportional representation across different job categories and banks. This approach enhanced the representativeness and reliability of findings regarding the relationship between digital transformation, self-efficacy, and employee job performance.

Data Analysis

Table 1: Reliability Analysis

Variable	Cronbach's Alpha
DT Strategy	.865
DT Culture	.861
Human Dimensions	.839
Procedural and Technical Dimensions	.815
Task Performance	.923
Contextual Performance	.843
Self-Efficacy	.748

Normality Analysis

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Self-Efficacy	241	-.994	.157	3.019	.312
Digital Transformation	241	-.948	.157	2.625	.312
Employees Job Performance	241	-.942	.157	3.080	.312

(Source: Survey data, 2025)

Table 2: Descriptive statistics for Variables

Variables	Mean	Std. Deviation
Digital Transformation	3.62	.566
Employee’s Job Performance	3.66	.619
Self_Efficacy	3.65	.604

The impact of Digital transformation on Employee job performance

H_1: *Digital Transformation positively influence on employee job performance in the banking sector*

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.913[a]	.833	.833	.25309

(Source: Survey Data, 2025)

The summary of the regression model is indicated in Table 4.31. The model also suggests that it predicts, with high significance (F = 1195.604, p = 0.000), 83.3% of variance in job performance of employees, which is significant.

Table 4: ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	76.584	1	76.584	1195.604	.000[b]
	Residual	15.309	239	.064		
	Total	91.893	240			

(Source: Survey Data, 2025)

The results of ANOVA are given in table 4.23. The regression model is extremely significant (F =1195.604, p = 0.000) whereby the independent variable is a reliable predictor of the job performance of employees.

Table 5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.040	.106		.378	.706
	Digital Transformation	.998	.029	.913	34.578	.000

(Source: Survey Data, 2025)

The regression coefficients of Digital Transformation to the job performance of the employees are shown in Table 4.24. The constant (B = 0.040, p = 0.706) is not significant, while Digital Transformation (B = 0.998, p = 0.000) has a strong, positive, and highly significant impact, which means that it has a tremendous positive influence on job performance. Therefore, H_1 is accepted.

Self-efficacy mediates the relationship between digital transformation and employee job performance

***H_2**: Self-efficacy mediates the relationship between digital transformation and employee job performance in the banking sector.*

Table 6: Mediation Analysis

Outcome Variable: Self-Efficacy						
	coeff	se	t	p	LLCI	ULCI
constant	.182	.112	1.627	.105	-.038	.403
Digital Transformation	.958	.031	31.342	.000	.897	1.018
Outcome Variable: Employee Performance						
	coeff	se	t	p	LLCI	ULCI
constant	-.041	.094	-.436	.663	-.226	.144
Digital Transformation	.573	.058	9.921	.000	.459	.686
Self-Efficacy	.445	.054	8.227	.000	.338	.551
Direct effect of X on Y						
Effect	se	t	p	LLCI	ULCI	c'_cs
.573	.058	9.921	.000	.459	.686	.524
Indirect effect(s) of X on Y						

	Effect	BootSE	BootLLCI	BootULCI
Self-Efficacy	.426	.069	.282	.556

(Source: Survey data, 2025)

The mediation analysis that investigated the involvement of Self-Efficacy in relationships among Digital Transformation, employees and their job performance were presented in Table 6. The initial step would determine the impact of Digital Transformation on Self-Efficacy. The outcomes show that the relationship between the two variables is strong and positive and highly significant, indicating that increased digitization transformation initiatives have a significant positive impact on the self-efficacy of employees. The baseline effect was insignificant because the constant was not significant. The second was the examination of impacts to employee performance. Both Digital Transformation and Self-Efficacy were significantly positive, which proves the fact that self-efficacy is one of the mediators. The positive impact of Digital Transformation on performance was also strong, but the positive impact of Digital Transformation on job performance of employees via Self-Efficacy was also meaningful which also substantiates the role of Self-Efficacy to mediate the effect of Digital Transformation on job performance. Therefore, H_2 is accepted.

Findings and Discussions

Digital transformation positively influences employees’ job performance in the banking sector. Digital transformation is a strong predictor of employee job performance. When organizations implement enabling technologies, streamlined processes, and supportive cultures, employees’ confidence in performing digital tasks increases, consistent with self-efficacy theory (Plekhanov et al., 2023). Higher self-efficacy, in turn, is associated with greater task productivity and adaptive work behaviors, as supported by organizational psychology research (Gun et al., 2024). Guzmán-Ortiz et al. (2020) found that digitally-enhanced customer service significantly improves both task performance and contextual performance ($p < 0.05$), and that digital initiatives add value by optimizing internal workflows and leveraging information systems for better alignment, control, interaction, and efficiency. Furthermore, digital processes—such as automated payroll—improve timeliness and reduce administrative delays, contributing to higher overall productivity. Collectively, these findings indicate that digital transformation fosters conditions that enhance employee performance in banks. Self-efficacy mediates the relationship between digital transformation and employee job performance in the banking sector. Mediation analysis indicates self-efficacy partially mediates the effect of digital transformation on job performance. Digital initiatives enhance employees’ belief in their capabilities, which in turn improves task and contextual performance (Rahaman & Gupta, 2021; Annisa & Ginarti, 2023). Statistical results show a positive and significant indirect effect (e.g., $\beta = 0.15$, $SE = .08$, 95% CI [.004, .306]; $p < .05$), supporting partial mediation. These findings underscore that successful digital transformation requires strategic alignment of technology, culture, and training to strengthen self-efficacy and thus amplify performance gains.

Conclusion

This study examined how digital transformation affects employee job performance in Kandy District’s banking sector, with self-efficacy as a mediator. Using a quantitative survey (241 valid responses) and analyses including reliability testing, regression, and Hayes PROCESS Model 4, the research found that digital transformation’s strategic, cultural, human, procedural, and technical dimensions significantly predict task and contextual performance. Self-efficacy partially mediates this relationship: digital initiatives both directly improve performance and indirectly do so by increasing employees’ confidence in their digital capabilities. Factor and reliability analyses confirmed measurement validity (Cronbach’s α mostly > 0.8). Findings indicate that effective digitalization requires alignment of technology, organizational culture, and training to build employee competence and reduce resistance. Practically, banks should combine technical investments with capacity-building, incentives, and supportive policies to maximize performance gains. Limitations include cross-sectional design and region-specific sampling, suggesting future research should explore longitudinal effects and additional mediators or moderators. Overall, the study underscores that human factors especially self-efficacy are critical to translating digital transformation into improved employee outcomes. Future research should examine digital transformation’s role in innovation management and business model innovation, and quantify its benefits. Studies could compare sectors (e.g., banking vs. manufacturing), include multiple Sri Lankan districts, and extend to other cities for broader contextual insights. Investigate DT’s effect on bank competitiveness and crisis management, testing mediators like self-efficacy or innovative behavior and moderators such as organizational support and resistance to change. Combine objective and subjective data for greater reliability. Finally, broaden psychological constructs beyond self-efficacy e.g., digital resilience and motivation to better understand employee adaptation and performance under digital transformation.

References

Abdelaziz, M., & Naama, A. (2023). The impact of digital transformation dimensions on employees' job performance: Applying on four and five-star hotels in the Red Sea Governorate. *Journal of Association of Arab Universities for Tourism and Hospitality, 24*(1), 436–466. https://doi.org/10.21608/jaauth.2023.241768.1512

Abdul, B., Jing, Z., Wang, L., & Rabeeu, A. (2024). Assessing the impact of employee-centric digital transformation initiatives on job performance: The mediating role of digital empowerment. *Strategic Management, 29*(2), 5–18. https://doi.org/10.5937/StraMan2300057R

Annisa, S., Siahaan, E., & Lumbanraja, P. (2024). Impact of digital transformation on banking employee performance with self-efficacy as a mediator. *Problems and Perspectives in Management, 22*(4), 523–531. https://doi.org/10.21511/ppm.22(4).2024.39

Annisa, N. N., & Ginarti, S. (2023). Employee performance: Self-efficacy and locus of control. *International Journal on Social Science, Economics and Art, 12*(4), 200–206. https://doi.org/10.35335/ijosea.v12i4.181

Bandura, A. (1977). *Self-efficacy: Toward a unifying theory of behavioral change.*

Ceipek, R., Hautz, J., De Massis, A., Matzler, K., & Ardito, L. (2021). Digital transformation through exploratory and exploitative internet of things innovations. *Journal of Product Innovation Management, 38*(1), 142–165. https://doi.org/10.1111/jpim.12551

Creswell, J. W. (2003). *Research design: Qualitative, quantitative, and mixed methods approaches* (2nd ed.).

Davidescu, A. A., Apostu, S.-A., Paul, A., & Casuneanu, I. (2020). Work flexibility, job satisfaction, and job performance among Romanian employees. *Sustainability, 12*(15), 6086. https://doi.org/10.3390/su12156086

Eger, L., Komarkova, L., & Egerova, D. (2023). Employees' ICT self-efficacy and uncertainty in the context of digital transformation.

Errichiello, L., & Pianese, T. (2021). The role of organizational support in effective remote work implementation in the post-COVID era. In *Handbook of Research on Remote Work and Worker Well-Being in the Post-COVID-19 Era* (pp. 221–242). IGI Global. https://doi.org/10.4018/978-1-7998-6754-8.ch013

Freundt Daneri, L., & Ortiz Pérez, L. A. (2024). Transformación digital y su relación en la mejora del job performance.

Guzmán-Ortiz, C. V., Navarro-Acosta, N. G., Florez-Garcia, W., & Vicente-Ramos, W. (2020). Impact of digital transformation on individual job performance. *International Journal of Data and Network Science*, 337–346. https://doi.org/10.5267/j.ijdns.2020.9.005

Haq, H. H., Arifeny, F. N., Astuti, S. D., & Febriana, A. (2024). Digital transformation improves employee performance through innovation and organizational learning.

Inuwa, M., Mashi, M. S., & Salisu, I. M. (2017). Job attitude and employee performance. *International Journal of Business and Management Future, 1*(1), 1–13.

Islam, M. T., & Hossain, T. (2024). Effects of digital transformation on employees' performance management systems. *Journal of Human Resource and Sustainability Studies, 12*(2), 289–314. https://doi.org/10.4236/jhrss.2024.122016

Mustofa, Y. A., & Cahyono, B. (2022). The effect of transformational leadership and digital workplace for employee performance.

Plekhanov, D., Franke, H., & Netland, T. H. (2023). Digital transformation: A review and research agenda. *European Management Journal, 41*(6), 821–844. https://doi.org/10.1016/j.emj.2022.09.007

Qiao, G., Li, Y., & Hong, A. (2024). The strategic role of digital transformation. *Systems, 12*(11), 457. https://doi.org/10.3390/systems12110457

Rahaman, A., & Gupta, A. (2021). Identification of determining factors of employee performance.

Taopiq, D. T. P., & Fuziyati, H. (2024). Influence of work discipline, motivation, and HR development on employee performance.