

Does Digital Finance Bring a Light To Entrepreneur Business Performance

Noor Saidatul Natrah Binti Saaidun¹, Nainatul Farzuha Binti Nor²,
Noorkartina Binti Mohamad³

^{1,2,3}Faculty of Business and Management Science, Islamic College University of Perlis Malaysia

Abstract

In recent decades, economic growth in countries around the world has become increasingly dependent on the dynamism of small and medium-sized enterprises (SMEs). Entrepreneurs play a main role in economic growth and development. The digital financial become a large portion among entrepreneurship to enhance their business performance. This research is conducting to study the capability of financial digitalization towards entrepreneurial business. Therefore, base on the previous literature the hypothesis on digital financial had been develop, and data collected through questionnaires among entrepreneurs in north region peninsular Malaysia. The findings reveal that digital financial on financial capability and financial quality insignificantly impact on entrepreneur business performance, financial accessibility negatively impact on entrepreneur performance. Therefore, entrepreneurs must be including and consider other factor that may highly impact on the entrepreneur's business performance. Besides that, to ensure the successful of entrepreneur, it is important to educate entrepreneurs the important of digital financial education in business now a days. Meanwhile the support systems such as financial institutions, government and other non-government organizations (NGOs) should become entrepreneurs' backbones to change their traditional method to modern method by using cashless transaction and go to digitalization business. Furthermore, entrepreneurs should know to combine business activities with others factors, such as technology, land, and labour, to improve business performance. Digitalization of financial include online banking, QR code, e-wallet, Touch n Go and Paypal.

Keywords: Digital financial, business performance, financial capability

1. Introduction

Transitioning economies are characterized by significant changes in economic, political, and social systems, which create both challenges and opportunities for entrepreneurs. It is a commonly accepted view among scholars and policymakers that small and medium-sized enterprises (SMEs) or entrepreneurs play a crucial role in promoting economic growth, job creation, and innovation in transitioning economies (Gómez-Morales & Fuentes-Blasco, 2020; United Nations Industrial Development Organization, 2018). Transformation from traditional method toward modern or digitalization method especially financial become important to entrepreneur business performance. Studies in the country that conducted by SMEs showed about 30% of new business fail in the first two years, 50% during first five years an 66% within 10 years (Roshan, 2020). The reason they failed

because poor promotional in digitalization adopt in business, weak organizational structure, no understanding market operation and lack of skills.

Financial capability is positively correlated with the scale, profitability and sustainability of entrepreneurship, which is robust in consideration of endogeneity. The effects of financial capability are heterogeneous for different entrepreneurs' field of business. Besides that, based on the findings will contribute to the theoretical understanding of the impact of digital financial to entrepreneur to sustain in the market with good financial performance. Entrepreneur needs to be aware digital financial come together with knowledge and their financial capability.

2. Literature Review

In order to complete the studies in digitalization financial there are three elements to review financial capability, financial quality and financial accessibility towards entrepreneur's business performance.

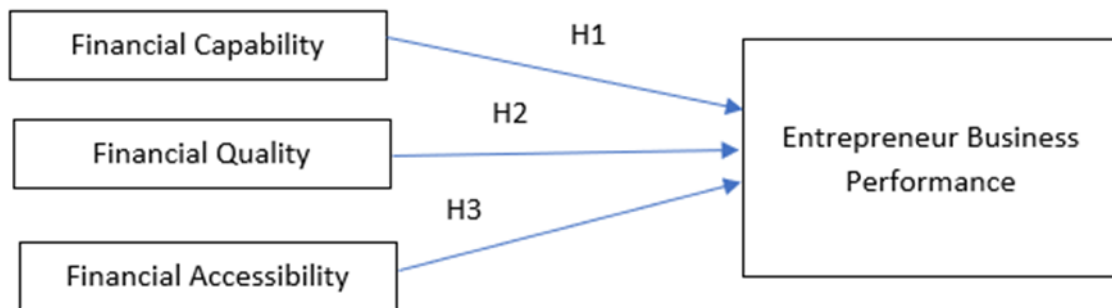
Financial capability is positively correlated with the scale, profitability and sustainability of entrepreneurship, which is robust in consideration of endogeneity. The effects of financial capability are heterogeneous for different entrepreneurs (Hong Yi, et. Al, 2022). Furthermore, the right financial management skills allow entrepreneurs to allocate resources strategically (Cumurović & Hyll, 2019) needed to know the entrepreneur capability in financial to implement the technology or to digitalization business. Financial management skills include budgeting, forecasting, and managing cash flow to ensure that financial resources are allocated efficiently to support business operations, expansion, and innovation. Based on (Orkun Yildiza, et. Al, 2013), there is a relationship between technological investments and innovation performance of firms. In addition, the findings have also showed that the relationship between technological investment and innovation performance is strong when the firms have good financial capability. However, the analyses have also revealed that there are no relationships between innovation performance between firm size and firm age. Firm size and firm age are not influence the firm or entrepreneur as long they have a good financial capability to move to digitalization business. Furthermore (Monica Cugno, et. Al, 2021) the implementation of digital or technology in business or financial it is parallel with industry revolution 4.0 but it leads to high perception of barriers especially in financial barriers to improve performance and adoption of incentives. Without a strong financial capability entrepreneur not able to adopt and move to digital financial. Even entrepreneurs have good financial capability to use digital finance in business activity without knowledge and skills they are not able to implement (Zulkarnain, et. Al, 2019). One critical dimension that impacts sustainable competitive performance (SCP) is innovation. Chen and Li (2021) found that firms that actively invest in innovation can develop unique products and services that differentiate them from competitors, leading to improved business performance. Similarly, Feng et al. (2021) noted that firms that adopt a proactive approach to environmental innovation can reduce their production costs and enhance performance as entrepreneur has good financial capability. The good financial capital will help the firm increase it performance (Dubini, 1989). In the other hand, inability to access finance capital will be a barrier for the start-up business activities (Ahmad, 2011 and Dubini, 1989). Based to (Darley, 2017) in Saudi, female entrepreneur has money from family legacy and all the expenses will be fully cover by father, uncle and brother. Thus, there is a relationship between financial capabilities and firm performance.

Financial quality reflects to activity that handle by the entrepreneurs especially in term of financial management, cost, and the ways entrepreneurs utilize the source of funds to enhance the business

performance. Financial quality significantly reflects to the business performance. Besides that, financial quality, reflect to the role of information technology (IT) in business performance has been explored by several researchers. Yang et al. (2021) found that firms that leverage IT to enhance operational efficiency can improve competitive performance of business by reducing costs and enhancing customer satisfaction. Additionally, Chiu et al. (2021) noted that firms that adopt a customer-centric IT strategy can improve SCP by developing personalized services and enhancing customer loyalty. A study by Olugbola and Adenuga (2021) found that financial assistance positively affects entrepreneur performance by providing much-needed capital to fund growth and development. However, the study also found that the impact of financial assistance on entrepreneur performance is dependent on the level of entrepreneurial orientation of the firm.

Financial accessibility refers to the extent to which relevant parties believe that various financial obstructions restrict performance, and these obstructions include collateral requirements, unfavourable interest rates, insufficient firm-retained earnings, local banks having insufficient resources, as well as access to a non-bank equity investor (Martin et al., 2007). Based on (Zaid Abd Karim Jaradat, 2018) there is negative relationship between financial accessibility and organizational performance. It is insignificantly impact on the business performance. Furthermore, Mbogo (2011), who claimed that insufficient financing and inaccessible finance are critical factors or constraints that have an adverse impact on the performance of business.

3. Framework and Hypotheses Development



H1: Financial capability has positive on digitalization of financial towards entrepreneur business performance.

H2: Financial quality has positive on digitalization of financial towards entrepreneur business performance.

H3: Financial accessibility has positive on digitalization of financial towards entrepreneur business performance.

4. Research Methodology

A questionnaire was used for the purpose of investigating the does the digitalization of financial impact the entrepreneurs business performance. The population for this study comprised the northern region of Malaysia peninsular among entrepreneurs. Sample composed of 100 firms was randomly drawn from two subsets; small and medium entrepreneurs’ firms. The questionnaires were distributed each to entrepreneur business. The questionnaire was developed after an extensive review of the literature related to financial capability, financial accessibility, and financial quality. A five-point Likert scale was used for the items that measured the financial accessibility constraints and government regulations; the

scales range from 1 which is indicating “strongly disagree” and 5 which is denoting “strongly agree.” The data collected using the questionnaire among the entrepreneur in north region peninsular Malaysia. The data collected will be analyzed using descriptive statistics and inferential statistics. Descriptive statistics such as mean, standard deviation, and frequency distributions will be used to describe the sample characteristics. Besides that, descriptive statistics such as mean, standard deviation, and frequency distributions will be used to summarize and describe the data collected. This will help in understanding the central tendency, variability, and distribution of the data. Inferential statistics such as correlation and regression analysis will be used to test the research hypotheses. The research design and approach for this study will enable us to explore the impact of digitalization of financial to business performance. Moreover, correlation analysis will be used to examine the relationship between digitalization of finance and entrepreneur business performance. This analysis will help in determining the strength and direction of the relationship between the variables.

5. Findings

5.1 Profile of Respondents

Demographic Items	Frequency	(%)
<i>Gender</i>		
Male	55	55.0
Female	45	45.0
<i>Age</i>		
18 - 20	1	1.0
21 - 30	13	13.0
31 - 40	51	51.0
41 and above	35	35.0
<i>Education Level</i>		
Doctor of philosophy	3	3.0
Master	3	3.0
Degree	42	42.0
Diploma	36	36.0
Secondary school	16	16.0
<i>Business Types</i>		
Sole proprietorship	65	65.0
Partnership	12	12.0
Own limited company	23	23.0
<i>Types of Digital Financial</i>		
Grab, Food Panda, QR Code	3	3.0
Grab, Touch n Go, Food Panda, QR Code	2	2.0
Online Banking, Food Panda, QR Code	1	1.0
Online Banking, FPX	12	12.0
Online Banking, FPX, Touch n Go, QR Code	23	
Online Banking, Grab, Food Panda, QR Code	8	8.0
Online Banking, Grab, Touch n Go, Food Panda, QR	2	2.0

Code		
Online Banking, QR Code	29	29.0
Online Banking, Touch n Go, QR Code	19	
<i>Duration of using financial digital</i>		
0 - 2 Tahun	41	41.0
3 - 4 Tahun	57	57.0
5 - 6 Tahun	2	2.0
<i>Table 1: Profile of respondents</i>		

Table 1 is summarized the profile of respondents. The questionnaire was predominantly answered by male participants, with 55 respondents representing 55.0%, while only 45 male participants, i.e., 45.0%, responded. The level of education with the highest number of respondents was college or degree, comprising 42 respondents or 42.0%, followed by diploma, secondary school, master and doctor of philosophy. Respondents with a 3 to 4 year of using digital financial in business constituted the largest frequency, with 57 participants representing 57.0%, while only 41 respondents, i.e., 41.0%, 0 to 2 years of using digital financial in business. The types of digital financial that respondent involved was online banking, QR code highest number of respondents, with 29 participants representing 29.0%, followed by Online Banking, FPX, Touch n Go, QR Code with 23 participants representing 23.0%, and Online Banking, Food Panda, QR Code states with 1 respondents representing 1.0%.

5.2 Correlation Analysis

Dependant variable	Parameter	FC	FQ	FA
BP	Pearson Correlation	.399	.174	.399
	Sig. (2 –tailed)	<.001	.042	<.001
	N	100	100	100
** Correlation is significant at the level 0.01 level (2-tailed)				
*Correlation is significant at the 0.05 level (2-tailed)				

Table 2: Linear relationship between independent variables and dependent variables

Variable	β	Significance
Financial capability	.329	.068
Financial quality	.050	.001
Financial Accessibility	.383	.613

Table 3: Multiple Regression Analysis

Multiple regression analysis will be used to examine the impact of financial digital on entrepreneur business performance while controlling for the effects of other firm-level factors. This analysis will help in determining the contribution of financial digital to entrepreneur business performance. The effects of the independent variables (financial capability, financial accessibility, and financial quality) on dependent variable, entrepreneur performance, were determined by using multiple regression analysis in table 3. The result show that financial capability ($\beta = 0.329$, $p > 0.05$) not significant effects on entrepreneur performance. Next, financial accessibility ($\beta = 0.383$, $p < 0.05$) had significant positive effects on entrepreneur performance. Furthermore, financial quality ($\beta = 0.50$, $p > 0.05$) had no significant effect on entrepreneur performance. The whole model explained 14.44% of the variance in dependent

variable entrepreneur performance. Therefore, there are others factors that may effects the entrepreneur performance besides financial capability, financial accessibility and financial quality.

5.1 Model Summary

The table 4 presents the results of a linear regression analysis where entrepreneur business performance is the dependent variable, and financial capability, financial accessibility and financial quality are the predictor variables. The table provides information about the fit of the model and the goodness of the model.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Goodness of Model (R ² >0.50)
1	.402	.162	.144	.64141	No

Table 4: Model Summary

The first row shows the model number, while the second row shows the correlation coefficient (R) between the dependent variable and the independent variables. The R-value of .402 indicates a weak positive correlation between the dependent variable and the independent variables.

The third row shows the R-squared value of .162, which means that approximately 16.20% of the variance in entrepreneur business performance can be explained by the linear combination of the predictor variables. The fourth row shows the adjusted R-squared value of .144, which considers the number of independent variables in the model. This value indicates that approximately 14.4% of the variance in entrepreneur business performance can be explained by the predictor variables, after adjusting for the number of variables in the model.

The fifth row shows the standard error of the estimate (SE) of .64141, which is a measure of the average distance between the predicted values of dependent variable and the actual values. The last row indicates whether the goodness of the model is acceptable, based on the criterion that the R-squared value should be greater than 0.50. In this case, the R-squared value is lower than 0.50, so the model is considered to have not goodness of fit model.

6. Discussion and Conclusion

All new digital application should be aware by entrepreneur to make entrepreneur more competitive in market. Entrepreneur must seize this opportunity. Moving forward, entrepreneur's growth must be driven by digital or technology. This requires renewal that can enhance the complexity of the entrepreneur's economy, which is reflected by the diversity and sophistication of entrepreneur's goods and services. Base on the research entrepreneur performance insignificantly measure by financial capability because there are other factors that may affect business performance. Moreover, (Henny Indrawati et. Al, 2020) there are five inhibiting factors of entrepreneurs' technology innovation: government support, quality of human resources, funding of technological innovation, economic conditions and business partners. The biggest inhibiting factor remains to be the funding of technological innovation. Furthermore, supporting institutions for developing entrepreneur digital innovation consist of government institutions, private institutions, financial institutions (banks) and nonbank financial institutions. To survive and excel amid

competition, entrepreneur need to improve services to consumers and improve their attitude toward innovation in the implementation and development of entrepreneurs' businesses.

Besides that, level of organizational skills need to improve in that respect especially about the technology and digital (Sami Saarenketo et. Al, 2004). Entrepreneur business performance not only depends on financial accessibility and financial quality; it is also depending on the types of business become an indicator in digitally use digital finance or technology in business. In spite of that entrepreneur that used digital technology able to enhance profit when government provide entrepreneur by good training and infrastructure (Aida Idris et. Al, 2023). Digital financial able to become the factor to enhance entrepreneur business performance by improving the digital financial capability with usually start by adopting digital financial services (DFS). DFS become mostly support entrepreneur business by observing recent development area to make it easy to access (Yu Luo et. Al., 2021).

Financial capability and financial quality not able to determine whether digital finance able to light entrepreneur business performance unless entrepreneur shows more understanding of digital transformation by clearing about two digital tool adoption patterns for managerial work: (1) workflow and workforce management and (2) work-flow and team management (Corin Kraft et. Al. 2021). The digital tool adoption in operational work additionally focuses on the digital skills of operational employees.

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