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Digital Financial Capability Towards Improving Entrepreneurial's Business Performance

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Abstract

Digital financial, play a vital role for the country growth, provides the prospects for encouraging economic development during the looming economic downturn. Entrepreneurs play a significant role in economic growth and development. Today, digital financial become a large portion among entrepreneurship to increase their business performance. The objectives of this research to study the capability of financial digitalization towards entrepreneurial business. Therefore, on the base of previous literature, we developed hypothesis digital financial, and data collected through structured questionnaires among entrepreneurs. The findings of this research endeavour to shed light on developing and popularizing digital financing by providing services which are cheap, secure, and low risk from a supply-side perspective, as well as adopting and adjusting digital financing by enhancing financial literacy, which would be necessary from the demand-side perspective. Therefore, to facilitate entrepreneurial success and improvement in entrepreneurial industry, it is important to provide entrepreneurs with financial education. Meanwhile, improvements to the financial environment should also be considered.

Keywords: digital financial, entrepreneur, business performance, capability.

I. INTRODUCTION

In today's rapidly evolving digital landscape, the fusion of financial literacy with digital technologies has emerged as a critical determinant of entrepreneurial success and business performance. Financial literacy is an important thing that must be owned by SMEs managers to achieve success and improve business performance. Low financial literacy levels make it difficult for SMEs to access funding because they are unable to produce financial reports properly and have inaccurate financial management (Dewi et al., 2018).

As digital platforms and financial tools become increasingly integrated into entrepreneurial ventures, understanding and harnessing digital financial capability have become imperative for entrepreneurs striving to thrive in competitive markets (Siddik & Kabiraj, 2020). The advent of digitalization has revolutionized traditional financial practices, offering entrepreneurs unprecedented opportunities to access, manage, and leverage financial resources through digital platforms and technologies. Digital financial capability encompasses a range of skills, knowledge, and competencies related to utilizing digital tools for financial management, budgeting, forecasting, transactions, and analysis.

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In today's hyper-connected world, entrepreneurs who possess strong digital financial capability are better equipped to navigate the complexities of the digital economy and capitalize on emerging opportunities.

The link between digital financial capability and entrepreneurial business performance is multifaceted and profound. Empirical evidence suggests that entrepreneurs with advanced digital financial skills are more adept at optimizing financial resources, mitigating risks, and seizing growth opportunities in dynamic market environments. By leveraging digital technologies for financial planning, budgeting, and monitoring, entrepreneurs can enhance their decision-making processes, optimize resource allocation, and drive sustainable growth and profitability in their ventures.

II. LITERATURE REVIEW

To illustrate how we complement the existing studies, we review the literature from three perspectives, namely, financial capability, financial quality, financial accessibility, and entrepreneurial performance.

2.1. Financial Capability and Entrepreneurial Performance

The concept of digital financial ability emphasizes the realization of related behaviours on the basis of digital financial literacy and is also different from the traditional concept of financial ability, as it is more focused on the actual interaction with digital financial products and services (Prasad, Meghwal, & Dayama, 2018; Saini, 2020). Financial capability enables entrepreneurs to access various sources of capital, including personal savings, loans, grants, and investments. Having adequate financial knowledge and skills can help entrepreneurs navigate the complex process of securing funding, whether it's through traditional banks, angel investors, venture capitalists, or crowdfunding platforms. Besides, effective financial management skills allow entrepreneurs to allocate resources strategically (Cumurović & Hyll, 2019). This includes budgeting, forecasting, and managing cash flow to ensure that financial resources are allocated efficiently to support business operations, expansion, and innovation.

Therefore, financial capability enables entrepreneurs to develop comprehensive financial plans and performance metrics to track progress and measure success. By setting clear financial goals, monitoring key performance indicators (KPIs), and conducting regular financial reviews, entrepreneurs can identify areas for improvement and make data-driven decisions to optimize business performance. Entrepreneurs with strong financial capability are better positioned to identify investment opportunities and capitalize on growth prospects. They can evaluate the financial viability of expansion initiatives, new product development, and market entry strategies, ultimately driving sustainable growth and competitiveness. Entrepreneurs who prioritize compliance and good governance practices can enhance transparency, accountability, and trustworthiness, which are essential for long-term business sustainability and reputation management (Luo & Zeng, 2020).

Overall, financial capability is a fundamental driver of entrepreneurial success, enabling entrepreneurs to access resources, manage risks, seize opportunities, and achieve their business goals. By investing in financial education, training, and mentorship, aspiring and existing entrepreneurs can enhance their financial capability and maximize their potential for entrepreneurial performance and growth.

2.2. Financial Quality and Entrepreneurial Performance

Financial quality encompasses various aspects of financial management and reporting that can significantly impact entrepreneurial performance. Maintaining accurate

and transparent financial records is essential for assessing the financial health and performance of a business. Entrepreneurs who prioritize financial quality ensure that their financial statements, including income statements, balance sheets, and cash flow statements, accurately reflect the company's financial position and performance (Cohen-Cole, 2016). Entrepreneurs who prioritize financial quality ensure that financial reports are prepared and communicated in a timely manner, enabling proactive management and strategic planning. Lyons et al. (2020) show that, identifying and managing financial risks is essential for safeguarding the long-term viability of a business.

Entrepreneurs who prioritize financial quality conduct comprehensive risk assessments, develop contingency plans, and implement risk mitigation strategies to protect against potential threats and uncertainties. Entrepreneurs who prioritize financial quality leverage financial analysis, forecasting, and scenario planning to evaluate strategic alternatives, assess business performance, and drive organizational change (Morgan et al., 2019). In today marketplace, Customer satisfaction measures the performance of organizations according to their needs. This further provides a measurement of service quality. By providing feedback on service aspects, customers can comment on products and services.

Overall, financial quality is a critical determinant of entrepreneurial performance, influencing decision-making, resource allocation, risk management, and stakeholder relationships. Entrepreneurs who prioritize financial quality can enhance their competitiveness, resilience, and long-term success in dynamic and challenging business environments.

2.3. Financial Accessibility of Digitalization and Entrepreneurial Performance

Financial accessibility of digitalization refers to the ability of entrepreneurs to access digital financial services and resources to support their business activities. Digitalization provides entrepreneurs with convenient access to online banking services and digital payment solutions, allowing them to manage their finances, make transactions, and pay bills from anywhere with internet access. This accessibility streamlines financial operations, reduces transaction costs, and improves cash flow management for entrepreneurial ventures (Yin et al., 2019). Digital payment is no doubt the stepstone for creation of business models (Bansal et al., 2018), on the ground of which came into being many other digital financial services, like digital credit and digital investment. Evidence shows that digital payment has significant and positive impact on different stages of entrepreneurship, from business entry, innovation to financial performance.

Few research examines these platforms provide entrepreneurs with access to a diverse range of financing options, including peer-to-peer lending, business loans, and equity crowdfunding, regardless of their geographic location or industry sector (Sekabira & Qaim, 2017; Yin et al., 2019). This accessibility enables entrepreneurs to raise capital quickly, bypassing traditional banking institutions and venture capital firms. Mobile banking apps and financial management apps empower entrepreneurs to manage their finances on the go, using their smartphones or tablets. These apps provide access to account information, transaction history, budgeting tools, and financial analytics, enabling entrepreneurs to monitor their cash flow, track expenses, and make informed financial decisions in real-time. This accessibility enhances financial visibility, control, and agility for entrepreneurial ventures. According to Prasad et al. (2018) and Saini (2020), digitalization has revolutionized how entrepreneurs' market and sell their products or services through e-commerce platforms and digital marketing channels. These platforms provide entrepreneurs with access to global markets, online storefronts, and digital

advertising tools, enabling them to reach customers worldwide and generate revenue 24/7. This accessibility expands market opportunities, increases sales potential, and drives business growth for entrepreneurial ventures.

Overall, the financial accessibility of digitalization has transformative implications for entrepreneurial performance, empowering entrepreneurs with the tools, resources, and connections they need to succeed in today's digital economy. By leveraging digital financial services and resources, entrepreneurs can enhance their financial management capabilities, seize new opportunities, and drive innovation and growth in their ventures.

III. RESEARCH METHODOLOGY

This study relies on entrepreneur from three (3) northern region, Malaysia that is Perlis, Kedah and Pulau Pinang. This research paper uses quantitative approach in exploring issues relevant to the topic discussed. Structured questionnaires were used to collect the data from entrepreneur. As quantitative refers to collects and analyze data using statistical methods by SPSS analysis. The collection of data so that information can be quantified and subjected to statistical treatment to support or refute alternative knowledge claims (Apuke, 2017).

3.1 Analysing Techniques

In this study, by statistically analysing it using SPSS (statistical package for the social sciences).

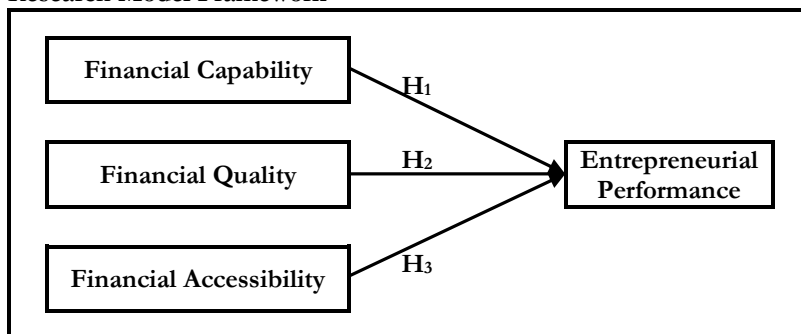
Firstly, the assumption regarding descriptive statistics includes methodologies such as cross-tabulation, frequencies, and descriptive ratio statistics. Secondly using Pearson correlations measure of the strength and direction of association that exists between two variables measured on at least an interval scale. The third phase included multiple regression analysis effects of the independent variables (financial capability, financial accessibility, and financial quality) on dependent variable, entrepreneur performance.

3.2. Research Model

Descriptions of all variables in this study, a research model framework can be made, as shown below Figure 1:

Figure 1

Research Model Framework



IV. RESULT AND DISCUSSION

4.1. Sample Profile

The descriptive statistics of the respondents are presented in Table 1 for the categorical type respondents. Results revealed that for firms, the highest percentage (55%) were headed by males, while females headed 45%. Most of the SMEs business

entities were in the sole proprietorship (65%) partnership (23%) and 12% of private limited company (Sdn Bhd). When considering company tenure, most companies are established over than 16 years (49%), 0-5 years (35%), 15% represented the company's tenure 6-10 years dan only 1% 11-15 years. Regarding the locations of the establishments, were operating in urban areas 25% and 75% in rural areas.

Table 1**Sample Profile for Categorical Variable Responses**

Variable	Frequency	Percentage
Gender:		
Male	55	55%
Female	45	45%
Business Entities:		
Sole Proprietorship	65	65%
Partnership	23	23%
Private Limited Company (Sdn Bhd)	12	12%
Company Tenure:		
0 - 5 years	35	35%
6 - 10 years	15	15%
11 -15 years	1	1%
16 years above	49	49%
Location Company:		
Rural	75	75%
Urban	25	25%

4.2. Digitalization Platform or Applications

In this research, the respondents amounted to 100 entrepreneurs located from three (3) northern region, Malaysia that is Perlis, Kedah and Pulau Pinang. Tabel 2 shows the platforms or applications that respondent using as a business method between customers.

Table 2**Digitalization Platform/Application**

	Frequency	Percent	Valid Percent	Cumulative Percent
FPX	2	2.0	2.0	2.0
Grab, Food Panda, QR Code	3	3.0	3.0	5.0
Grab, Touch n Go, Food Panda, QR Code	2	2.0	2.0	7.0
Online Banking	4	4.0	4.0	11.0
Online Banking, Food Panda, QR Code	1	1.0	1.0	12.0
Online Banking, FPX	6	6.0	6.0	18.0
Online Banking, FPX, QR Code	18	18.0	18.0	36.0
Online Banking, FPX, Touch n Go, QR Code	5	5.0	5.0	41.0
Online Banking, Grab, Food Panda, QR Code	8	8.0	8.0	49.0
Online Banking, Grab, Touch n Go, Food Panda, QR Code	2	2.0	2.0	51.0
Online Banking, QR Code	29	29.0	29.0	80.0
Online Banking, Touch n Go	2	2.0	2.0	82.0
Online Banking, Touch n Go, QR Code	17	17.0	17.0	99.0
Touch n Go	1	1.0	1.0	100.0
Total	100	100	100	

4.3. Descriptive Statistics

Table 3 shows the descriptive statistics of variables for both the entire respondents. In the entire sample for studying all the variables, the financial capability had the highest score at 4.5325, while performance had the lowest score at 4.0100. What is worth noticing is that, the adoption score of financial capability at 4.5325 and also financial accessibility at 4.5325.

Table 3

Descriptive Statistics

	Mean	Std. Deviation	N
Performance	4.0100	.69341	100
Financial capability	4.5325	.50957	100
Financial quality	4.5900	.49883	100
Financial accessibility	4.5325	.50957	100

4.4. Pearson Correlations

Table 4 result of Pearson correlation analysis revealed entrepreneur performance is correlated positively with financial capability ($r = .399, p < .05$), financial quality ($r = .174, p < .05$), financial accessibility ($r = .399, p < .05$). the results of the correlation analysis provide initial support for the study hypotheses.

Table 4

Pearson Correlations

		Performance	Financial Capability	Financial Quality	Financial Accessibility
Pearson Correlation	Performance	1.000	.399	.174	.399
	Financial Capability	.399	1.000	.324	1.000
	Financial Quality	.174	.324	1.000	.324
	Financial Accessibility	.399	1.000	.324	1.000
Sig. (1-tailed)	Performance	.	<.001	.042	<.001
	Financial Capability	.000	.	.000	.000
	Financial Quality	.042	.000	.	.000
	Financial Accessibility	.000	.000	.000	.
N	Performance	100	100	100	100
	Financial Capability	100	100	100	100
	Financial Quality	100	100	100	100
	Financial Accessibility	100	100	100	100

4.5. Multiple Regression Analysis

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 (Table 5). 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 other factors that may affects the entrepreneur performance besides financial capability, financial accessibility, and financial quality.

Table 4

Multiple Regression

Variable	β	Significance
Financial capability	.329	.068
Financial accessibility	.383	.001
Financial quality	.050	.613
R square	.162	
Adjusted R square	.144	

Notes: dependent variable= entrepreneur performance

4.6. Discussion and Recommendations

4.6.1. Impact of financial capability towards entrepreneurial performance

The results of the study show that there is no significant relationship between financial capability towards entrepreneurial performance ($\beta = 0.329$, $p > 0.05$). Factor this negative relationship due to respondent in this research among small business entrepreneurs and they are uncertain about financial management literacy. That is, they are not able to access various sources of finance, not knowledgeable on effects of inflation and interest rate and not very conversant with making accurate calculations. These findings agree with the findings of Plakalovi (2015) who found that most SMEs managers are not able to perform accurate calculations and lack numeracy skills especially elderly, female and less educated population. It is recommended that small entrepreneurs, especially those living in rural areas, are given exposure to financial management such as financial education, training, and mentorship, aspiring and existing entrepreneurs can enhance their financial capability and maximize their potential for success in dynamic and competitive business environments. Financial capability empowers entrepreneurs to effectively manage financial resources, including budgeting, cash flow management, and investment decisions. Entrepreneurs who possess strong financial capability can allocate resources strategically, optimize costs, and make informed decisions that maximize the efficiency and profitability of their ventures. Besides, financial capability empowers entrepreneurs to develop and implement strategic plans that drive business growth and sustainability (Luo & Zeng, 2020).

4.6.2. Impact of financial quality towards entrepreneurial performance

As well as the results for financial quality towards entrepreneurial performance had no significant effect on entrepreneur performance ($\beta = 0.50$, $p > 0.05$). High financial quality provides entrepreneurs with accurate, reliable, and timely financial information to make informed decisions. Entrepreneurs can use financial statements, budgets, and forecasts to assess the financial health of their ventures, evaluate investment opportunities, and allocate resources strategically. Sound financial quality enables entrepreneurs to make data-driven decisions that align with their strategic objectives and drive business growth and profitability. Entrepreneurs who prioritize financial quality and adhere to best practices in financial management are better positioned to succeed in competitive markets, drive innovation, and create long-term value for their ventures and stakeholders. It is also recommended for government agencies along with micro finance institutions and banks should organize financial education programs that will create awareness on areas that are lacking such as more effective sources of funds for startup businesses. This will encourage SMEs to expand and grow in areas they are lacking. Financial education programs will not only improve the growth of the enterprises but also the entire economy as SME's contributes so much to the economies where they exist.

4.6.3 Impact of financial accessibility of digitalization towards entrepreneurial performance

However, financial accessibility ($\beta = 0.383$, $p < 0.05$) had significant positive effects on entrepreneur performance. Digitalization has democratized access to funding for entrepreneurs through online lending platforms, crowdfunding websites, and digital investment networks. Entrepreneurs can access a wide range of financing options, including loans, grants, equity investments, and peer-to-peer lending, without the need for traditional banking intermediaries. This increased financial accessibility enables entrepreneurs to secure the capital needed to start, grow, and scale their ventures, driving entrepreneurial performance and innovation (Adomako et al., 2016). Overall, the financial accessibility of digitalization has transformative implications for entrepreneurial performance, enabling entrepreneurs to access funding, reach markets, streamline operations, make data-driven decisions, and collaborate with stakeholders more effectively. By embracing digital financial services and leveraging digital platforms, entrepreneurs can unlock new opportunities, overcome barriers, and achieve their full potential in dynamic and competitive business environments.

V. CONCLUSION

The findings of this research underscore the critical role of digital financial capability in driving entrepreneurial success and business performance in the digital age. Through an in-depth exploration of the relationship between digital financial capability and entrepreneurial outcomes, this study has shed light on the transformative potential of digitalization in enhancing financial management practices, access to funding, market reach, and strategic decision-making for entrepreneurs.

In conclusion, the research has underscored the transformative potential of digital financial capability in empowering entrepreneurs to succeed and thrive in the digital economy. By enhancing financial literacy, digital skills, and access to digital financial services, entrepreneurs can unlock new opportunities, overcome barriers, and achieve their full potential in dynamic and competitive business environments. As we continue to navigate the opportunities and challenges of the digital age, investing in digital financial capability will be essential for driving entrepreneurial growth, innovation, and prosperity in the years to come.

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