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# Digital Financial Literacy and Business Success of SMEs in Pakistan

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## ABSTRACT

**Purpose**- The role played by SMEs in the economic growth of a country is unquestionable. In developing countries like Pakistan, SMEs make notable contributions. The main cause of failure of the SME sector in developing countries is insufficient financial and technical knowledge by owners/managers. The current study covers the financial knowledge aspect with the use of current digital channels which was ignored by previous studies. This study aims to investigate the effect of digital financial literacy on the business success of SMEs. The study also examines the role of enterprise risk management practices as a mediator.

**Design/Methodology/Approach**- Data for the research were collected via structured questionnaires in two waves. 360 complete and valid questionnaires filled by owners/top managers from various SME sectors were used for data analysis. The analysis of the data for this study is done through Hayes Process Macro using SPSS and Amos v.24.

**Findings**- Results from the data analysis show that digital financial literacy has a positive impact on the business success of SMEs and that enterprise risk management practices partially mediate the relationship between digital financial literacy and the business success of SMEs.

**Practical Implications**- Current study provides salient implications for SME owners and top managers by establishing a strong link between digital financial literacy and business success. This study also substantiates the importance of technical and financial education of owners and top managers of the SME sector to ensure business success. Moreover, the results of the study corroborate the significance of applying risk management practices in SMEs.

**Originality/Value**- Very few researchers have studied the relationship between financial literacy and the business success of SMEs. Furthermore, literature on the impact of digital financial literacy on business success is very scarce. The current study adds value to the literature by furnishing empirical evidence and establishing a significant and positive relationship between the study variables. The study also contributes to the literature by providing evidence of a positive linkage between digital financial literacy and business success through risk management practices.

**Keywords**: Digital Financial Literacy, Business Success, Enterprise Risk Management Practices.

## 1. INTRODUCTION

Developing economies take a central position in the current global economy and small and medium enterprises (SMEs) are crucial to the growth of developing countries

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(Chandra et al., 2020). Extant research shows that developing countries, particularly in Asia, are driven by SMEs which play a fundamental role in driving their economies (Chandra et al., 2020). Das et al. (2020) stated that the small business sector is an important tool for the economic growth of the business sector of any country. The SME sector plays a critical role in job creation, technology advancement, revenue generation, economic growth, business innovation and development of a country. In fact, SME sector is considered the most prominent sector among business organizations, therefore, it is considered as backbone of most of the economies. Goldstein et al. (2019) states that 90% of the business and also about 50% of the employment falls under the umbrella of the SME sector.

In developing countries like Pakistan, SMEs represent a significant portion of all firms and such firms have a healthy contribution to GDP. In Pakistan, SMEs comprised about 90% of all the enterprises, employ 82% of the non-agricultural labor force with a GDP percentage of almost 40% (Khan, 2021), and participate up to 25% in the exports of the country (Kantola et al., 2018). In 1998, the government of Pakistan formed an institution for the smooth functioning of the sector named the Small and medium enterprise development association (SMEDA). Currently, the SME sector is operating with 3.2 million SMEs in the country (Kantola et al., 2018). However, the SME sector faces issues in arranging its resources, particularly financial resources unlike large enterprises in the formal sector (SMEDA, 2022).

In the past, it has been observed that during difficult economic conditions, the SME sector is affected more than any other corporate sector. The reasons behind being struck hard are the scarcity of funds, lack of awareness of utilization of funds, and other technological understandings of resource persons. The current era is the era of digitalization and digital transformation (Fenech et al., 2019). Most of the businesses are transforming their business processes according to current needs. Organizations can purchase the technology, and install the latest available systems and software but this transformation is not possible without the literacy of their employees. Employers' and employees' financial literacy for financial matters and digital literacy for adopting technology in the world of digitalization play a vital role in the success of businesses.

Different factors which affect the performance and efficiency of SMEs have been researched widely but Digital Financial Literacy (DFL) which is the main driver to survive and compete in the current digital age has been underexplored. The use of digital financial products and services for any sector of the business is unavoidable in the current scenario.

In recent times, financial literacy has become imperative to make effective and efficient financial decisions (Lyons & Kass-Hanna, 2021). A person can be assumed financially literate if he possesses the ability to manage his finances through knowledge, understanding, and skills (Goyal & Kumar, 2021). According to Siekei et al. (2013), effective financial literacy skills help firms obtain better business performance. Similarly, Grohmann et al. (2018) stated that financial literacy is regarded as the notable driver of financial inclusion and increased financial inclusion contributes positively to the real economy.

The emergence of digital technology has changed the financial behavior of consumers (Setiawan et al., 2022). According to Lyons and Kass-Hanna (2021), covid-19 pandemic and financial technologies have produced innovative digital financial products and services which are accessible through digital modes such as cell phones. Different digital tools for payment such as digital wallets and mobile money usage are expanding enormously. In short, digitalization and financial technologies are changing the financial management behavior of individuals as well as companies (Lyons & Kass-Hanna, 2021). DFL is a coalescence of two concepts i.e., financial literacy and digital literacy. According to Lyons and Kass-Hanna (2021), it is based on three dimensions i.e. basic knowledge and skills, awareness, and practical know-how.

Enterprise risk management process (ERMP) is the process carried out to identify and to address methodically the strong events which represent financial risks to the accomplishment of long-term objectives, or to gain a unique competitive advantage. Financial risk includes liquidity risk, capital structure risk, interest rate risk, and market risk. Implementation of ERMP has become imperative for businesses of any scale either small or large due to recent economic crises resulting in more dynamic and complex business environments (McShane, 2018). Chen et al. (2019) stated that FRM has resulted in cost reduction as well as positive business performance. SMEs have also understood the importance of developing risk models to cope with intensive and dynamic business environments (Yang et al., 2018). According to Rehman and Anwar (2019), SMEs have limited access to quality human resources and capital which makes them susceptible to dynamic business environments and economic shocks, however, ERMP provides a safeguard against such economic shocks and competition (Chen et al., 2019). According to Callahan and Soileau (2017), ERMP helps firms grasp a good understanding of the overall risk faced by businesses which further helps them organize their resources accordingly to mitigate the impact of risks which ultimately results in better financial performance of businesses. Deficiencies of reliable mechanisms and lack of digital financial skills as well as a scarcity of capital finance are considered notable obstacles to implementing ERMP in SMEs (Brustbauer, 2014). ERMP is different from traditional risk management as it encompasses types of financial risks faced by an enterprise by using an integrated method through which financial risk is minimized and communicated to the whole enterprise (Tahir & Razali, 2011).

Cash is considered the lifeblood of any type of business (Mazzarol & Reboud, 2020). To meet day-to-day activities and for business expansion, small businesses need to hold and manage cash effectively (Mazzarol & Reboud, 2019). According to Nafees et al. (2017), businesses hold cash for capital investments as well as operating expenses but holding cash has both merits and demerits for businesses. Nafees et al. (2017) further stated that businesses may hold cash for three kinds of reasons which are termed speculative motive, precautionary motive, and transaction motive. SMEs often face financial constraints from banks due to a lack of information on business performance indicators, therefore, SMEs try to hold more cash than usual for their business survival (Nafees et al., 2017). Hence, according to Mulligan (1997), small firms have to face higher transaction cost due to which economies of scale is not well achieved by them. According to Mohd-Ashhari and Faizal (2018), cash holding level determination is essential for all types of firms. In this regard, firms should take into account the cost-benefit analysis of holding certain levels of cash because a lower level of cash may pose a hindrance to day-to-day activities while a higher level of cash may lead to higher opportunity cost (Mohd-Ashhari & Faizal, 2018).

All firms either large or small, run businesses to achieve their financial goals. The success of a particular business can be measured through different perspectives i.e. financial as well as non-financial (Walker & Brown, 2004). According to Perren (1999), business success can be explained through business growth while Walker and Brown (2004) stated that small business success is affected by external as well as internal factors which may include business objectives, entrepreneurial decisions, experience, and competition. Agyapong and Attram (2019) stated that a business's financial success is dependent upon efficient resource acquisition, allocation, and utilization. In this regard, the role of financial literacy becomes notable for a business's financial success. According to Mazzarol (2014), it has become imperative for financial managers/owners of small businesses to have certain knowledge about financial management and cash cycle management. A lack of financial knowledge regarding the acquisition and handling of financial resources may lead to ineffective financial decisions and small businesses may go bankrupt (Grable & Joo, 2000). In this regard, financial literacy and entrepreneur risk management become crucial for business success as small businesses are considered the foundation of the economy and lack of financial literacy may pose a threat to the success of small businesses.

Researchers have investigated many intrinsic and other external factors that affect the financial success of businesses. They include competition between enterprises, decisions and objectives of owners and management, prior training, the structure of the industry, and culture and prior experience. Some researchers in the past attempted to elaborate success in terms of growth (Perren, 1999), while others have taken financial performance (Pervan & Višić, 2012). This study focuses on the performance of digital financial literacy and ERM practices on the financial success of SMEs.

Despite the significance of the SME sector in previous literature, the performance of the sector is poor and the failure rate is high, especially in developing countries (Raza et al., 2018). Hafeez (2014) identified that most of the SME businesses fail early in their first five years and the situation in Pakistan is even worse. Most of the small businesses collapse early in Pakistan which is an indicator of the threat to development of Pakistan

(Ullah et al., 2011). According to Raza et al. (2018), besides other factors lack of finance, inability to access financial resources, and scarcity of human skills are the major factors of failure in the SME sector. They stated that in the current era, the economies are relocating from production to intellectual economies therefore knowledge-based resources play vital role in the success of the businesses.

According to Dar et al. (2017), lack of k knowledge, skills, and experience of owners and employees as well as constraints in tangible resources such as financial resources are major causes of the failures of SMEs in Pakistan. After conducting interviews, they found that a lack of financial and technical knowledge is the major reason for failure. Different aspects of financial performance have been studied in literature but there is a need to elaborate on the impact of DFL on the financial success of SMEs.

Data collected from SMEs show that despite the increasing trend of digital growth, the growth performance of SMEs has declined (Prasanna et al., 2019). Literature highlights that the scarcity of knowledge and skills of SMEs owner/managers is one of the major reasons. The owner/manager with better digital financial skills and knowledge can improve ERMP in the firm which would result in improved financial success. Therefore, this study investigates the impact of DFL on the financial success of SMEs along with the mediating role of financial risk management. The objectives of the study are:

- To explore the relationship between digital financial literacy and financial performance.
- To explore the mediating role of ERM practices between DFL and the financial success of SMEs.

SMEs contribute to the economies by participating in employment, national income, and exports of the country (Sidek et al., 2020). In developing countries, SMEs are considered as a catalyzer of the economy. Due to the flexibility of production capacity and adaptation of different scales of employment, SMEs are considered more flexible as compared to large enterprises (Erdin & Ozkaya, 2020). Like any other firm, the goal of SME owners is to run a successful business (Kumar et al., 2021), therefore financial success is vital for any SME. OECD (2018) confirmed the importance of DFL in its first report. In the current era of digitization, the understanding of digital technologies in financial matters is important for individuals and SMEs owner /managers to avoid any fraudulent activities (OECD, 2018). Ribeiro et al. (2021) confirmed that dimensions of just FL are not enough to explore the financial knowledge, therefore the current study is considering DFL to check the financial knowledge of the owner/manager of SMEs. Previous research has checked the relationship of financial literacy and financial performance for SME firms but this study contributes to the literature by taking DFL instead of FL alone.

## 2. LITERATURE REVIEW

### 2.1. Digital Financial Literacy and Business Success

DFL has already mentioned, combines the skills to use financial services with the latest digital technology. The role of technology in the success of any business depends on the user's proficiency. Today is the age of digitization and a manager with will the capability of utilizing financial services with digital skills will play a more effective role in the success of any business. In SMEs generally, a single person is responsible for all its financial activities that’s why his/her capability to use digital financial services is more critical. In the current era of digitization and digitalization, DFL is proving an important angle of education as well as the success of the business. The use of digital software and applications to deliver financial services to businesses has become a promising tool to certify the success of SMEs. The success of businesses particularly the SME sector depends on upgraded access to financial services that require a higher level of DFL to avoid any fraud such as phishing and hacking attacks. Baporikar and Akino (2020) argued that women entrepreneurs with more capable of using digital technology to use financial services played a better role in the success of their businesses.

Munyuki and Jonah (2022) elaborated on the nexus between the FL and the entrepreneurial success of young entrepreneurs and found that there is a meaningful impact of financial literacy on the success of SMEs. The entrepreneurs with better knowledge using financial services and better financial literacy were progressive towards the business success of their SMEs.

Business Success refers to the capability of any business to accomplish its set goals.

Business success is therefore defined as the capability of a business to reach its defined targets as measured against its planned in terms of financial performance. This study probes the influence of financial literacy on business success in the Nigerian economy and has confirmed with statistical results that FL influences the performance of the business enterprise (Usama & Yusoff, 2019)

According to Meitriana et al. (2022), FL is the capability to utilize knowledge and skills to attain better financial results. Financial literacy is the Knowledge, expertise, and basic financial concepts like compound interest, the difference between the face value of a security and the actual worth of security, the concept of risk diversification, the value of money, and other terms included in the category of financial knowledge. The ability and skills to impose knowledge and expertise to enhance financial performance is financial literacy. Knowledge, skills, and attitude are all related parts of the concept of financial literacy (Kendzia & Borrero, 2022).

Financial literacy is one of the major determining aspects of the performance and success of SMEs and the SMEs with improved financial knowledge and skilled entrepreneurs performed better in terms of financial performance and growth relative to competitors (CHOI et al., 2022; Graña-Alvarez et al., 2022).

Resource-Based View (RBV) theory elaborates on the causal relationship between FL and business success (Purwidianti et al., 2022). RBV theory describes that if an entity can manage its resources to be more effective, valuable, impenetrable, and unique, it will attain growth, and success and get an imperishable competing advantage (Barua, 2022). Managers with high financial literacy can lead the company to access improved financial resources and optimally manage to enhance the performance of the company (Davis & DeWitt, 2021; Freeman et al., 2021; Gueler & Schneider, 2021). While making the firm financial decisions, financial literacy is described as the capabilities and knowledge needed to regulate and improve the financial matters of the firm. In SMEs, Business owners/ managers must be financially literate to cope with digital channels to manage SMEs' finances effectively (Estensoro et al., 2022).

Utami et al. (2021) worked on the financial literacy, of owners, fin technology, and the performance of firms and concluded that owners with better financial literacy and understanding about financial matters produced better financial output for their firms. Thus SMEs owner/Managers with improved Digital Financial Literacy (DFL) can enhance the performance of SMEs which results in better Business Success. So, in the current study, we propose our first hypothesis as

**H1**: *There is a positive relation between the Digital Financial Literacy of the Owner/manager and the business success of SMEs.*

### 2.2. Relationship between Digital Financial Literacy and Enterprise Risk Management Practices

In the current dynamic and digital market firms employ extensive tangible as well as intangible resources to achieve competitive advantage which results in better performance that leads to better business success. Past studies have elaborated various determinants of competitive and unique advantage and execution particularly in developing economies, whereas SMEs in emerging economies like Pakistan Economy have received much less attention. The current study checks the mediating role of Risk Management Practices between Digital Financial Literacy and SME Business Success.

To analyze the impact of SME owner/manager FL and the use of technology on risk management practice (Mabula & Han, 2018). Worked on a research study and found a significant positive relationship between the financial literacy of owners/managers of SMEs and firm risk management practices. The researchers measure the risk management practices for SMEs in developing economies and developed a strong association between financial literacy and firm risk management practice.

In the process of digitalization of business, the concept of convergence of FL and technological literacy (techno-financial literacy) is emerging, although the impact of techno-finance literacy in the field of SMEs is still not properly researched. Kulathunga et al. (2020) found that techno-financial literacy is a strong determinant of ERM practices. They stated that both variables have a positive and strong impact on the risk management practices of SMEs. In developed countries, SMEs contributed more than those of large business firms and in developing countries SMEs can play a vital role if they are equipped with the scarce resources and competence which are necessary to gain competitive advantage. Without financial resources, SMEs cannot play an effective role both in domestic and foreign markets. FL is the skill to check firm financial resources that target to reduce risk and maximize profit (Nohong et al., 2019). In light of the literature discussed above it is easily concluded that there exists a strong association between Digital Financial Literacy and risk management practices of small and medium enterprises (SMEs). Thus, we are in a position to formulate the next hypothesis that states:

**H2**: *There is a positive association between the Digital Financial Literacy of owners/managers and the Risk Management practices of SMEs.*

### 2.3. Risk Management Practices and Business Success of SMEs

In the current competitive digital era, there is a need for well-equipped firm-level policies for SMEs. When we talk about globalization, due to their scarce resources and small size SMEs face more risk. To manage the risk SMEs need to develop risk management practices. The more effective risk management practices an SME would develop the stronger financial position it will have (Rehman & Anwar, 2019).

Small and medium-sized firms with the ability to better access the risk firms and the capacity to cope with the risk perform better which leads to improved business success. Some researchers argue that firms with active risk management practices manage their resources well and gain a competitive advantage which eventually leads them to improved business success (Catanzaro & Teyssier, 2021; Falkner & Hiebl, 2015).

Hanggraeni et al. (2019) elaborated on the role of various factors including risk management variables on MSMEs' business performance. They conducted their research study in various undeveloped cities in Indonesia and found satisfactory results. This research concluded that the firms carry both activities of risk control i. e risk identification and risk management would bring better operational performance. The study concluded that to attain profitable performance and achieve sustainable business success the firm along with other internal and external factors needs to develop comprehensive risk management practices for both risk identification and to control risk.

Risk is narrowly intermixed with the decision. If a firm is rethinking its risk management process it means it wants to improve its decision-making process by inducting new policies. To solve a problem firms need to analyze the different alternatives in terms of costs or benefits before making any final choice. Crovini et al. (2021) found a close relationship between risk management and business success which was measured in terms of the financial performance of SMEs. The liability of an SME owner/ senior SME manager to make effective decisions plays a basic role in accelerating the financial position and the sustainable growth of SMEs in any business environment (Čepel et al., 2018). The authors concluded that the primary effect of improved risk management practices is a gradual increase in the business success of SMEs.

**H3**: *Risk Management practices positively influence the Business Success of SMEs.*

### 2.4. Risk Management Practices as a Mediator

In the current study, we proposed that digital financial literacy affects the business success of the SMES and this path can be mediated, if the firm adopted proper risk management practices. In the previous discussion, we have literature that proves the relationship between financial literacy and risk management practices. Literature also supports the strong impact of risk management on business success. Rehman and Anwar (2019) in their study discussed the role of enterprise risk management between business strategy and business performance. They argued in their study that business strategy is an intangible asset of the firm and can be taken as a resource of the firm. With a unique business strategy firm can adopt improved risk management practices that will lead to higher performance. If a firm has a competitive advantage and adopts a better strategy, it can boost its performance through risk management practices (Mahmood & Ahmed, 2022). A firm is unable to achieve a competitive advantage of its unique and scarce resources without implementing proper risk management practices.

Ali et al. (2022) in their research study discussed the mediating role of ERM practices between the differentiation strategy and financial performance. Researchers argued that competitive strategy is a strong determinant of ERM practices and risk management practices boos the performance of the firm. Risk management practices successfully mediate the relationship between firm resources and its output (El Baz & Ruel, 2021). ERM practices are considered the best technique to manage all sorts of risks a firm can face (Roslan et al., 2017).

DFL is an intangible resource of a firm. SME owners/managers equipped with better DFL can give a competitive edge to the firm. With improved literacy about financial matters, the owner/manager can smoothly implement risk management practices to boost the performance of the firm which would result in higher business success. Therefore, we can hypothesize that digital financial literacy will impact business success through enterprise risk management practices.

**H4**: *Enterprise Risk Management Practices will mediate the relationship between Digital Financial Literacy and the Business Success of SMEs.*

### 2.5. Theoretical Framework

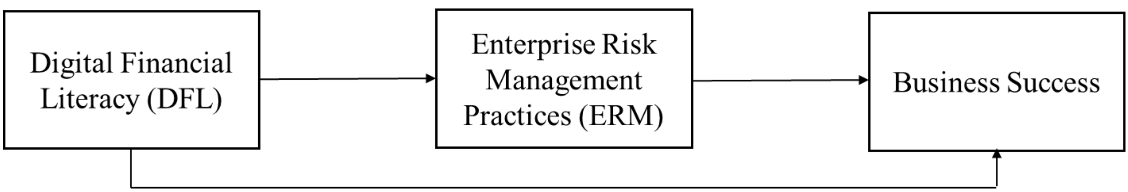


Figure 1. Framework

## 3. RESEARCH METHODOLOGY

This study aims to inspect the nexus between DFL and business success through the mechanism of enterprise risk management practices. Therefore, the nature of the study is explanatory and the survey method is used for primary data collection. This study is explanatory and used the primary data for analysis which was collected using the survey method.

### 3.1. Participants and procedure

Participants for this were the owner or top managers of SME firms in different cities of Punjab which were selected using a cluster sampling technique. Data gathering is carried out using a multistage cluster sampling technique. The province of Punjab in Pakistan is chosen at random. The chosen province is divided into the Southern, Central, and Northern Punjab areas. There are 35 districts in total, and two are randomly chosen from each region. Data were acquired using a structured questionnaire that was prepared in both English and Urdu to improve understanding and collect relevant data. Any research's quality mostly hinges on how well the data are collected.

A total of 459 questionnaires were distributed to the participants who worked in top management positions for various organizations. Three distinct sectors have received the questionnaire (manufacturing, trading, and services). The anonymous survey was delivered by email, the intranet (Google Forms link), and WhatsApp along with an introduction. This introduction described the survey's objective and estimated completion time (10–15 minutes). Also, it was mentioned at the outset that the survey replies were confidential. After a week, the non-respondents were reminded. A total of 360 participants filled out the questionnaire and returned it. For this study, the response rate was 78%.

The final sample comprised 346 participants because incomplete responses were omitted from the sample and were not considered for the final analysis. It is evident from Table 1 that the majority of the participants were female i.e., 81% as compared to male i.e., 19%. It is also evident from Table 1 that majority of the respondents' age range was 45 to 60 years (45%) followed by the age range 30 to 45 years (29%). The respondent profile presented in Table 1 also showed that the education level of 62% of the respondent falls in the category of MA/MBA followed by 20% in the graduation category. Most participants 52% have experience working in their current position from 5-10 years, 22 % have experience of less than 5 years and the remaining 26% have experience of above years. Sector-wise categorization of respondents was as follows, 42% of the participants were from manufacturing, 38% were from trading, and 20% were from services. A majority of the respondents, 55% work in an organization that has about 100 employees.

**Table 1**

*Respondent's Profile (n = 346)*

| Category | Characteristics | Frequency | Percentage |
|---|---|---|---|
| Gender | Male | 66 | 19 |
| | Female | 280 | 81 |
| Age | Below 30 years | 35 | 10 |
| | 30-45 years | 102 | 29 |
| | 45-60 years | 154 | 45 |
| | Above 60 years | 55 | 16 |
| Qualification | Intermediate or less | 40 | 12 |
| | Bachelors | 69 | 20 |

| | | | |
|---|---|---|---|
| | MA/ MBA | 216 | 62 |
| | M Phil | 21 | 6 |
| Experience at Current Position | Less than 5 years | 77 | 22 |
| | 5-10 years | 180 | 52 |
| | Above 10 Years | 89 | 26 |
| Nature of Business | Manufacturing | 146 | 42 |
| | Trading | 130 | 38 |
| | Services | 68 | 20 |
| Number of Employees in Firm | Below 50 | 80 | 23 |
| | 50-100 | 192 | 55 |
| | Above 100 | 74 | 21 |

### 3.2. Measures

A 5-point Likert scale was employed for all study variables indicating 1 as "strongly disagree" and 5 as "strongly agree".

***Digital Financial Literacy (DFL)*** was measured using the 11 items developed by Setiawan et al. (2022). A sample item includes "Having a good understanding of digital alternatives." All elements were added together and averaged. Higher scores indicated better digital financial literacy, whereas lower scores indicated poorer digital financial literacy. A person with high digital financial literacy will be able to plan effectively and with authority.

***Business Success (Financial Performance)*** was measured on 5 items scale developed by Ahmad et al. (2011).

***Enterprise Risk Management Practices (ERM)*** were assessed using 12 items that were developed by Rehman and Anwar (2019).

### 3.3. Data Analysis

Different data analysis techniques such as initial screening, descriptive estimates, reliability and validity analysis, correlational analysis, confirmatory analysis, and hypothesis testing are all essentials for data analysis. Data analysis was done using SPSS 23 and AMOS 24.

## 4. RESULTS AND ANALYSIS

Data analysis started with the initial evaluation of the data, which checked for any missing observations and outliers that would have an impact on the results of statistical models.

### 4.1. Descriptive Statistics

Descriptive statistics of our main study variables have been presented in Table 2. Participants reported having a high level of digital financial literacy (M = 4.10, SD =.77) and a moderate to higher level of enterprise risk management techniques (M = 3.66, SD = 0.70). However, still, participants reported the financial success of the business (M = 3.64, SD = 0.62).

**Table 2**

*Descriptive Statistics*

| Variable | Mean | SD | Correlation | | |
|---|---|---|---|---|---|
| | | | 1 | 2 | 3 |
| 1. DFL | 4.10 | 0.77 | 1 | | |
| 2. ERMP | 3.66 | 0.70 | 0.375 | 1 | |
| 3. BFP | 3.64 | 0.62 | 0.289 | 0.516 | 1 |

Note: DFL = Digital Financial Literacy, ERMP = Enterprise Risk Management Practices, BFP = Business Financial Performance

### 4.2. Pearson Correlations

Table 2 also shows the results of the correlation analysis. It shows that DFL is positively associated with Enterprise risk management practices closer to a moderate level (r=.375) which is also positively associated with business financial performance at a moderate to higher level (r=.516) whereas the nexus between DFL and business financial performance observed to be associated at low to moderate level (r= .289).

### 4.3. Measurement Model

The measurement model examines how the latent variables and their measures relate to each other. For this purpose, a sophisticated statistical technique CFA was applied. Several item scales have been used in the current study (e.g., DFL). The researchers have also applied an item parceling strategy to cope with model under-identification issues. A similar approach was also used in the study conducted by Sterba and Rights (2022). Regression weights for each construct’s items or parcels and scale reliabilities are given in Table 3.

**Table 3**

*Scale Reliabilities and Regression Weights of Construct Items and Parcel Items*

| Variable | Regression Weights | CR | AVE | Alpha |
|---|---|---|---|---|
| DFL | | 0.805 | 0.586 | 0.909 |
| DFL Parcel 1 | 0.609 | | | |
| DFL Parcel 2 | 0.756 | | | |
| DFL Parcel 3 | 0.906 | | | |
| MP | | 0.858 | 0.547 | 0.873 |
| PRMC1 | 0.645 | | | |
| PRMC2 | 0.732 | | | |
| PRMC3 | 0.674 | | | |
| PRMC4 | 0.651 | | | |
| PRMC5 | 0.692 | | | |
| BFP | | 0.861 | 0.609 | 0.890 |
| BFP Parcel 1 | 0.793 | | | |
| BFP Parcel 2 | 0.742 | | | |
| BFP Parcel 3 | 0.821 | | | |
| BFP Parcel 4 | 0.763 | | | |

Note: DFL = Digital Financial Literacy, ERMP = Enterprise Risk Management Practices, BFP = Business Financial Performance, $p < 0.01$

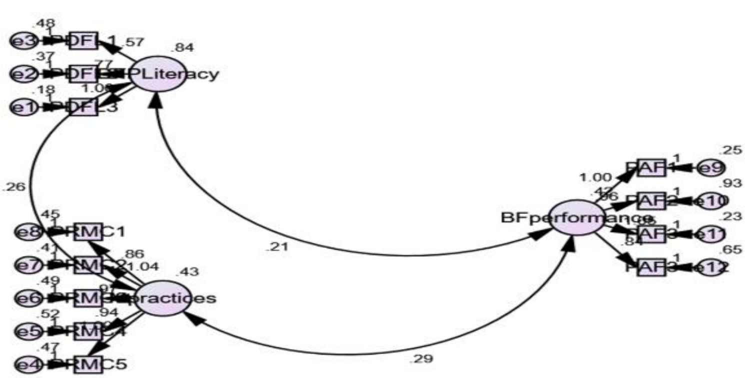


**Figure 2:** Measurement Model

Overall evaluation of the model fitness is measured based on values of different indices whose values are presented in Table 4.

**Table 4**

*Measurement of Model Estimation*

| | |
|---|---|
| CMIN / DF | 2.522 |
| CFI | 0.946 |
| TLI | 0.930 |
| GFI | 0.942 |
| NFI | 0.915 |
| RMSEA | 0.067 |

As shown in Table 4, CMIN/DF for the default model is 2.532 which is less than .3, which is considered to be good and also within acceptable range (Zhang, 2022). All fit indexes such as CFI=.946, TLI=.930, GFI=.942, and NFI=.915 are closer to 1 and indicate an excellent model fit (Zhang, 2022). Likewise, the value of the RMESA (Table 3) measure gives its value of 0.067, for the default model, which shows that model fitness is very perfect (Zhang, 2022).

### 4.4. Reliability and Validity

The models' reliability and validity have been evaluated by using conventional measures such as convergent validity, discriminant validity, composite reliability, and internal consistency. Table 5 displays the findings for the first three measures.

**Table 5**

*Validity Measures*

| | **CR** | **AVE** | **MSV** | **MaxR(H)** | **ERMP** | **DFL** | **BFP** |
|---|---|---|---|---|---|---|---|
| **ERMP** | 0.858 | 0.547 | 0.457 | 0.861 | 0.740 | | |
| **DFL** | 0.805 | 0.586 | 0.187 | 0.867 | 0.432 | 0.766 | |
| **BFP** | 0.861 | 0.609 | 0.457 | 0.865 | 0.676 | 0.349 | 0.780 |

Note: DFL = Digital Financial Literacy, ERMP = Enterprise Risk Management Practices, BFP = Business Financial Performance

AVE (Average Variance Extracted) is a measure of convergent validity or the potential of a construct to share the items or statements that are used to measure it. Here, the AVE of all the variables is greater than 0.5, or more i.e., digital financial literacy DFL is 0.586, ERMP is 0.547 and BFP is 0.609. According to Cheung et al. (2023), AVE values above 0.5 indicates the presence of convergent validity. A technique called Composite Reliability (CR) uses factor loading to evaluate an item's relevance or contribution. For all of the constructs in this, the value of CR is likewise more than 0.7, i.e., digital financial literacy DFL is .805, enterprise risk management practices are .858, and business financial performance is .861. Since every CR value for the model under study is higher than the cutoff, 0.7, which shows the model structures' composite reliability. The technique used to gauge internal consistency is Cronbach alpha. Here, all of the variables α’s are—DFL -=0.909, ERMP=0.873, and BFP= 0.89 (see table 4)—have values more than 0.7 (Cheung et al., 2023). As a result, the model exhibits internal consistency. Finally, discriminant validity is a technique for determining how different constructs are from one another. According to Rasoolimanesh (2022), the square root of AVE and the value of construct correlation are compared. Table 5 shows that the correlation value for each variable is smaller than the square root. Thus, the model is discriminant valid as a result.

### 4.5. Test of Hypotheses

All study hypotheses have by tested by using SPSS Process Macro developed by Hayes (2017). Test results are presented in Table 6. These findings show a substantial association between the factors that were studied, and almost all of the findings are found to be consistent with those available in the literature. We first examined the direct relationships, and then we investigated the indirect (mediation) connection.

**Table 6**

*Model’s Direct and Indirect Path Coefficients*

| Paths | Beta | p-Value | CI | |
|---|---|---|---|---|
| DFL-BFP | 0.1039 | 0.027 | 0.0119 | 0.196 |
| DFL-ERMC | 0.3490 | 0 | 0.2500 | 4298 |
| ERMC-BFP | 0.4900 | 0 | 0.3885 | 0.5915 |
| DFL-ERMC-BFP | 0.1665 | 0 | 0.0828 | 0.2583 |
| TOTAL EFFECT | 0.2705 | 0 | 0.1476 | 0.3664 |
| R-SQ | 0.2769 | | | |

### 4.6. Direct Relationships

The results in Table 6 showed that digital financial literacy is indeed a significant predictor of business financial performance (β=.1039, p<.05); this result supports Hypothesis 1 that digital financial literacy is significantly associated with business financial performance. Results also showed that DFL is significantly associated with enterprise risk management practices (β= .349, p<.01) which is further associated with business financial performance (β= .49, p<.01) and supports hypothesis 2 stating that digital financial literacy affects enterprise risk management practices and hypothesis 3 stating that Enterprise Risk Management practices have an impact on the business financial performance of SMEs.

### 4.7. Test of Mediation (Indirect Relationship)

By examining the underlying mechanism or process, mediation analyses are used to comprehend a reinforced association between digital financial literacy and firm financial performance (enterprise management practices). According to Table 6, it is found that DFL (through ERMP) has a positive and significant impact on BFP [β= 0.1655, p = 0.001, 95% CI (0.1476, 0.3664)]. Moreover, the bias-corrected bootstrap analysis shows that the above-mentioned 95% confidence interval (CI) eliminates 0 for the mediating effect of workplace resentment, supporting H4 which states that ERM mediates the relationship between DFL and BFP of SMEs.

We applied the VAF criteria to determine if there is full or partial mediation between DFL and BFP. According to Meher et al. (2022), no mediation exists when the VAF value is less than 0.2, and Full mediation exists when the VAF value is greater than 0.8 and if the VAF value ranges between 0.2 to 0.8 then partial mediation exists. According to Table 6, it is found that the VAF value for our model is 0.61 and the direct relationship between the independent variable and dependent variable is also significant, indicating that partial mediation exists.

## 5. DISCUSSION

Literature suggests that financial literacy has been studied thoroughly by scholars and it has concluded a notable effect on business success when measured through business performance (CHOI et al., 2022; Graña-Alvarez et al., 2022; Munyuki & Jonah, 2022; Usama & Yusoff, 2019). However, literature related to digital financial literacy is scarce. Therefore, the current study has focused on the impact of digital financial literacy on business success and provided notable contributions in the form of statistical results.

Another critical factor affecting business success is enterprise risk management. It is evident from the literature that enterprise risk management has been a focal point for SMEs to identify potential risks faced by a business and make strategies to mitigate those risks (Callahan & Soileau, 2017; Tan & Lee, 2022; Zhu et al., 2023). Literature also suggests that ERM has been studied by many scholars to measure its impact on business success (Callahan & Soileau, 2017; Tan & Lee, 2022; Zhu et al., 2023). Therefore, in the current study, it has tested whether ERM plays a mediating role between the nexus of digital financial literacy and business success and the results are satisfactory and in line with previous research.

The results of the current study are in line with the previous results. Researchers have found a positive relationship between financial literacy and financial performance (Agyei, 2018; Usama & Yusoff, 2019). Authors have also found the positive impact of financial as well as technical literacy on the performance of SMEs (Kulathunga et al., 2020). The results of the current study found a positive relationship between digital financial literacy and business success which are in line with previous results.

Literature suggests that enterprise risk management practices are a potential determinant of business success measured through financial performance (Chairani & Siregar, 2021; Olayinka et al., 2017), and enterprise risk management practices are affected by financial literacy (Yang et al., 2018). This research again validates the previous research results. Results show the strong positive impact of DFL on ERM and ERM affects financial performance which is an indicator of business success. Results also validate the ERM as a mediator between DFL and business success which is confirmed through mediation analysis. The value of VAF which is o.61 indicates the partial mediation in the model.

## 6. CONCLUSION

The current study contributes to the literature on Financial Literacy, Digital Financial Literacy as well as to SMEs literature by explaining a unique path between the output in terms of Business Success and input in terms of digital financial literacy which is an intangible source that gives a competitive advantage to a firm. Previous studies elaborated on the relationship between performance and business success with numerous determinants. Some recent researchers worked on the relationship between financial literacy and financial performance as well. The novelty of the current study is empirical evidence of the path between digital financial literacy and business success for the SME sector. It will provide a new horizon both for researchers as well as for the SME sector. Work about ERM as a moderator will also be a productive addition to the existing literature.

The results of the study help the owner/manager of SMEs by attaining a competitive advantage by using the concept of digital financial literacy to boost the business success of firms. In the current era of digitalization, every business needs to have the potential to understand the use of new digital channels to access finance. SME owners/managers should have the capacity to understand the different financial concepts like the time value of money and the use of digital channels for paying and receiving different payments. The result of the current study advocates that among other factors needed for the success of SMEs, digital financial literacy is also an important factor. The owner/manager who has the capacity and skills to understand the use of digital channels in financial matters can add unique strength to their businesses. The results of the study will motivate the SME owner/ manager to equip them with digital financial literacy for the betterment of the firm. These managers/owners with higher financial literacy will strengthen the financial position of their firms and will boost the business success of their SMEs.

Although the current study has a healthy contribution to existing literature both for academia and industry particularly for the SME sector it has some limitations too. Firstly, the data has been collected through various sectors of Punjab, Pakistan. The population can be extended throughout the overall country. Comparison between different sectors of

SMEs in a country or comparison between different countries can also be made to get comprehensive value addition in literature.

Business success has four dimensions including financial performance, non-financial performance, business growth, and growth relative to competitors. Most of the researchers have discussed only one aspect which is financial aspects. The current study has also considered just the financial aspect due to time limitations. Other three aspects of business success can also be tested with independent variables.

Availability of finance is one of the major hindrances to the growth of the SME sector. If a firm owner/manager can utilize digital channels and can understand the financial concepts as well but has a shortage of funds for his firm then the impact of digital financial literacy on business success may be weaker. Further research can be conducted by taking access to finance as moderating variable on the relationship between digital financial literacy and business success.

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