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Impact of Digital Financial Services on Entrepreneurial Growth

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Abstract

In the contemporary world, Digital Financial Services (DFS) have become an important driving force in the development of modern economies impacting entrepreneurship and business activity. The incorporation of digital technology in financial systems has made it possible to provide greater access to financial services through mobile banking, internet banking, digital payments, P2P lending, crowdfunding, and fintech financial services. These innovations have helped in reducing costs associated with transactions, improving financial inclusiveness, increasing access to credit facilities, and ensuring effective management of businesses especially MSMEs. Digital financial service platforms are increasingly being used by entrepreneurs in the management of business activities, seeking funding, interacting with customers, and improving business operations. However, despite the importance of digital financial services in entrepreneurship and business activity, empirical knowledge about the role played by them is scattered. This current study will look at the effect of digital financial services on entrepreneurship development using an analysis of existing literature in order to provide a conceptual model connecting digital financial services, financial inclusion, business effectiveness, innovation capabilities, and entrepreneurial performance. In the process, the research study provides an understanding of the ways through which digital finance plays a role in promoting entrepreneurial development, as well as the important challenges facing the adoption of digital technology. From the findings of the study, it becomes apparent that the digital financial services play a great role in promoting entrepreneurship development through the enhancement of access to finance, removal of barriers, increased business scalability, and innovation. Financial inclusion also emerges as an important mediator in the link between digital financial services and entrepreneurship development.

Keywords: Digital Financial Services, Entrepreneurship, Financial Inclusion, FinTech, Entrepreneurial Growth, Digital Payments, MSMEs, Innovation, Business Performance, Digital Economy

1. Introduction

Entrepreneurship is essential for economic growth, innovation, employment creation, and development in various countries around the world. Entrepreneurship is very critical in ensuring economic dynamism through innovative products and services, creation of jobs, and increased competition within the marketplace (Acs et al., 2018). Thus, entrepreneurship has become an important part of the economic development programs developed by different states and international bodies. Nevertheless, the success and sustainability of entrepreneurial activities is contingent upon having proper access to finance and finance management systems. Lack of access to financial services is one of the main obstacles that hinder the sustainable development of entrepreneurs, especially those owning small and medium-size businesses (Beck et al., 2005).

Traditionally, financial institutions have been unable to cater for the financing needs of entrepreneurs due to factors like collateral requirement, asymmetric information, transaction cost problems, and geographical constraints. These challenges have mainly affected entrepreneurs in the developing and emerging nations, which lack adequate financial infrastructure (Berger & Udell, 2006). Therefore, lack of access to cheap credit, payment facilities, savings, and insurance services has hindered entrepreneurial development and expansion of business activities. Financial exclusion has become one of the main challenges faced by entrepreneurs in their development process.

The fast growth of digital technologies has changed the global financial system and generated opportunities to deal with the problem of financial exclusion. Digital financial services are products and services provided via digital means like mobile phones, personal computers, internet portals, and digital networks. Such services comprise mobile banking, internet banking, digital wallets, online payments, peer-to-peer lending, crowdfunding platforms, digital credit, insurtech, fintech financial applications (Gomber et al., 2018). Thus, due to the implementation of technological innovation, digital financial services deliver convenient, affordable, and accessible solutions to businesses and individuals irrespective of their location.

With the development of financial technology (FinTech), the development of DFS has gained even more momentum. FinTech is the process of integrating innovations with financial service provision in order to create customer-oriented solutions which are efficient, accessible, transparent, and affordable (Lee & Shin, 2018). In addition, the popularity of smartphones, cloud computing, artificial intelligence, blockchain, and big data analytics increased the capacity of digital financial systems. Therefore, entrepreneurs have got an access to various financial services and products.

Financial inclusion has been regarded as an important policy aim during the digital era. According to the World Bank, financial inclusion is defined as the availability and usage of affordable, useful, and sustainable financial services by households and firms (Demirgüç-Kunt et al., 2022). Digital financial services have proven to be some of the most potent tools in achieving financial inclusion as they do away with the barriers associated with traditional financial systems. Through the use of mobile banking services and digital payments systems, entrepreneurs can perform financial transactions, save money, borrow money, and manage their businesses without having to rely on brick-and-mortar banks (Ozili, 2018).

The importance of digital financial services in the success of entrepreneurship has risen significantly. Entrepreneurs operate in highly dynamic business environments which require efficiency and innovation in order for one to be successful. Digital financial technologies support the operations of businesses by allowing real-time transactions, cash flow management, improvement of customer experience, and cost reduction (Nambisan, 2017).

One of the main advantages that digital financial services have offered to entrepreneurs is increased access to finance. Financing is one of the key prerequisites for starting a business venture, expanding and innovating, and ensuring its sustainability. At the same time, many entrepreneurs do not have access to financing due to the lack of adequate collateral, credit history, and asymmetrical information (Beck & Demirgüç-Kunt, 2006). Digital lending services offer entrepreneurs different ways of assessing their creditworthiness via transaction data analysis, behavior monitoring, use of machine learning and big data analytics, and other digital footprints. Such innovations allow entrepreneurs to have additional opportunities for financing. Digital payment systems represent another major innovation that has changed the way in which entrepreneurs conduct their businesses. Cashless payments are much cheaper, more transparent, secure from fraud, and convenient in terms of interacting with customers (Hasan et al., 2020). With the rising popularity of digital payment platforms, entrepreneurs are able to conduct their business activities in domestic and international markets more efficiently. Moreover, digital transactions provide important data for assessment of businesses' performance and creditworthiness.

Electronic commerce has further cemented the link between digital financial services and entrepreneurship development. E-commerce websites need a reliable payment system in order to conduct their business activities and interact with customers. Digital wallets, payments gateways, and mobile banking services are the financial mechanisms that help participate in digital commerce (UNCTAD, 2021). As a result, entrepreneurs who implement digital financial innovations are able to have access to a larger pool of customers and earn more money.

Digital financial services also play an important role in developing business operations and decision-making processes. Current fintech innovations enable entrepreneurs to use advanced software solutions to budget, manage their accounts, control inventory, forecast the financial situation, and analyze the flow of finances. The availability of real-time financial information helps improve managerial decisions and proper allocation of resources (Puschmann, 2017). This is especially relevant for small businesses with limited managerial and financial capabilities.

Digital financial services have shown their strategic value for ensuring the continuity of operations during the economic crisis due to the ongoing pandemic. The restrictions on face-to-face interactions forced entrepreneurs to use digital payment systems, online banking services, and fintech platforms more frequently (Fu & Mishra, 2022). It can be said that firms which were already using digital financial services proved to be more flexible than companies relying on traditional financial systems. Nevertheless, there are certain barriers to the use of such innovations by entrepreneurs. Digital literacy issues, cybersecurity problems, privacy concerns, insufficient technical capacity, and legal questions continue to hinder the successful application of digital finance (Kou et al., 2021). Moreover, the unequal availability of the internet and the digital competence of people can worsen the situation for the most vulnerable groups and negatively affect the inclusiveness of digital innovations in finance.

Various theoretical approaches serve as the basis for analyzing the connection between digital financial services and entrepreneurial development. The Technology Acceptance Model (Davis, 1989) postulates that the perception of the usefulness and ease of use influence people's adoption of new technologies. Diffusion of Innovation Theory (Rogers, 2003) clarifies the mechanisms of the spread of technological innovations in the social system. According to the Financial Inclusion Theory, financial services facilitate economic engagement and help to decrease the obstacles faced by entrepreneurs. Taken together, the theories imply that digital financial services can contribute to better entrepreneurial results due to financial inclusion, higher efficiency, and innovations.

The positive effect of digital financial services on entrepreneurship is increasingly being empirically proven. It has been shown that digital finance encourages the start of businesses, increases their efficiency, builds financial resilience, and fosters innovations among entrepreneurs (Suri & Jack, 2016; Xie et al., 2018; Zhang et al., 2019; Ghosh, 2022). Mobile money services, digital lending, and fintech solutions appear particularly effective in promoting financial inclusion and entrepreneurship in emerging markets.

Nonetheless, several research gaps have been identified in extant literature. First, most research is concerned with digital finance, financial inclusion, and entrepreneurship performance separately instead of incorporating these variables in one model. While there has been considerable amount of research carried out on digital financial inclusion, there is not enough research on the multifaceted effect of digital financial services on entrepreneurial growth in terms of both digital payments, digital lending, mobile banking, and fintech innovations. In addition, the mediating role of financial inclusion and effect of business efficiency and innovation capabilities in the relationship between digital finance and entrepreneurial growth has not been addressed. The evidence in much of the literature is also geographically confined to a particular region.

This research paper will therefore explore how digital financial services affect entrepreneurial growth and the underlying process that makes digital finance support entrepreneurship success. Specifically, the study aims to achieve the following objectives:

Objectives of the Study

1. To examine the impact of digital financial services on entrepreneurial growth.
2. To analyze the relationship between digital financial services and financial inclusion.
3. To investigate the influence of digital payment adoption on business efficiency.
4. To evaluate the effect of digital credit accessibility on business expansion.
5. To examine the mediating role of financial inclusion in the relationship between digital financial services and entrepreneurial growth.
6. To assess the influence of business efficiency and innovation capability on entrepreneurial growth.

Based on these objectives and existing theoretical foundations, the following hypotheses are proposed:

Hypotheses

H1: Digital Financial Services positively influence Entrepreneurial Growth.

H2: Digital Financial Services positively influence Financial Inclusion.

H3: Financial Inclusion positively influences Entrepreneurial Growth.

H4: Digital Payment Adoption positively affects Business Efficiency.

H5: Access to Digital Credit positively affects Business Expansion.

H6: Financial Inclusion mediates the relationship between Digital Financial Services and Entrepreneurial Growth.

H7: Business Efficiency positively influences Entrepreneurial Growth.

H8: Innovation Capability positively influences Entrepreneurial Growth.

The subsequent literature review develops the theoretical and empirical foundation of these hypotheses by critically examining prior research on digital financial services, financial inclusion, fintech innovation, and entrepreneurial development.

2. Literature Review

2.1 Conceptual Foundations of Digital Financial Services

Digital Financial Services (DFS) are various forms of financial products and services provided using different digital means such as smartphones, internet, automation, and other fintech means. DFS include mobile banking, internet banking, digital wallets, electronic money transfers, crowdfunding, peer-to-peer loans, digital credit, robo advisory, blockchain finance,

and others (Gomber et al., 2018). The development of digital financial services has revolutionized the conventional financial system by increasing its accessibility, efficiency, transparency, and affordability.

Digital finance has evolved due to developments in information and communication technology, increasing internet access, the proliferation of smartphones, cloud computing, artificial intelligence, and big data analytics (Arner et al., 2020). Technological innovations have helped financial companies and fintech companies design new products and services, which have many advantages over the traditional banking system. Digital financial services differ from the traditional banking system in terms of real-time access to funds and lower transaction costs.

The theory underlying digital financial products is intimately connected to the idea of financial democratization. The latter denotes the efforts of providing access to financial products for the greater number of people, as well as for the business entities which were excluded from traditional financial systems until now (Ozili, 2018). In this way, by minimizing the limitations of geographical distance, paperwork, and high operating expenses, digital financial products provide an important contribution to economic inclusion and entrepreneurship.

Academics have noted time and again that digital financial innovations generate value through minimizing the problems related to information asymmetry and efficient allocation of resources (Demirgüç-Kunt et al., 2018; Frost et al., 2019). Therefore, digital finance has become an integral part of any entrepreneurial ecosystem nowadays.

2.2 Theoretical Foundations

Technology Acceptance Model (TAM)

One of the most common models that help in explaining technology adoption is the Technology Acceptance Model (TAM) developed by Davis in 1989. The Technology Acceptance Model suggests that the perceived usefulness and the perceived ease of use are the main predictors of technology adoption. Therefore, when using digital financial services, the entrepreneurs are more willing to adopt such technologies as digital payments, Internet banking, and other fintechs if they see them as useful and convenient.

Many empirical studies have confirmed the relevance of TAM in explaining the process of digital financial services adoption in terms of entrepreneurs and small businesses (Venkatesh & Davis, 2000; Oliveira et al., 2016). The factors of convenience, transaction speed, security, and accessibility have been revealed as important predictors.

Diffusion of Innovation Theory

According to Rogers (2003), Diffusion of Innovation Theory is an explanation of how innovations diffuse through social systems over a period of time. This theory states that there are five factors that determine whether innovations will be adopted or not; relative advantage, compatibility, complexity, trialability, and observability.

There are numerous qualities of digital financial services that facilitate diffusion among entrepreneurship groups. These services have high relative advantage as they provide benefits such as lowering of transaction costs, increasing operational effectiveness, and enhancing access to financial resources.

Financial Inclusion Theory

The theory of Financial Inclusion posits that the availability of affordable financial services facilitates entrepreneurship, alleviates poverty, and ensures economic engagement (Demirgüç-Kunt et al., 2018). Financial inclusion provides entrepreneurs with access to savings, payments, insurance services, and credit services essential for entrepreneurship and business expansion.

In addition, digital financial services have proven crucial in enhancing financial inclusion through the removal of most obstacles associated with accessing financial services. Mobile banking and technological innovations have greatly enhanced the availability of financial services in remote areas.

Resource-Based View (RBV)

According to the resource-based view of the firm (Barney, 1991), firm success is based on having valuable, rare, unique and non-substitutable resources. Digital financial resources can be considered strategic resources that add to competitiveness.

Those entrepreneurs who successfully apply digital financial systems have access to better information and financial resources which form competitive advantages for them. This means that using digital finance can positively affect business performance.

2.3 Digital Financial Services and Financial Inclusion

Financial inclusion has become a very important goal of global development programs. As per the World Bank Global Findex Database, millions of adults are still left outside of formal financial systems even though there have been great developments in the field of financial access during the last ten years (Demirgüç-Kunt et al., 2022). Digital financial services are considered one of the best ways to solve this problem.

Many researches prove that mobile money services improve financial inclusion. For instance, Suri and Jack (2016) state that financial access in Kenya improved after the launch of M-Pesa mobile money service. It positively impacted the welfare of households and promoted entrepreneurship. The same effect is noted by Aker and Wilson (2013). They stated that mobile financial services allow conducting economic transactions and avoiding financial exclusion in developing countries.

Digital financial services give opportunities to entrepreneurs to open accounts, transfer money, save money, and get credits without visiting banks in person. It is especially helpful for entrepreneurs who operate their businesses in rural areas (Ozili, 2018).

It was noted by Demirgüç-Kunt et al. (2022) that digital payments have emerged as an important motivator for financial accounts. Mobile payments and digital wallet applications have brought more people under the umbrella of formal financial systems including people who were not able to use financial services earlier.

Research performed in China revealed that digital financial inclusion plays an important role in entrepreneurship by enabling better access to financing and lower transaction costs (Xie et al., 2018). Similar results have been obtained from the countries of India, Southeast Asia, and Sub-Saharan Africa where digital finance helped entrepreneurs start their businesses.

2.4 Digital Payments and Entrepreneurial Growth

The use of digital payment systems is another clear example of digital financial services. With electronic payment systems, such as mobile payments, QR code payments, online banking, and digital wallets, business processes have significantly evolved in all industries.

According to Hasan et al. (2020), the implementation of digital payments increases efficiency through the reduction of transaction costs, increased transparency and decreased risks. Entrepreneurs can enjoy fast transactions, effective cash flow management, and increased convenience for customers. Research shows that the use of digital payments positively affects business performance and growth (Klapper, 2017). The use of digital payments helps entrepreneurs enter the e-commerce system, thus enabling them to reach more customers and operate beyond local markets.

It has been shown that cashless payments systems positively affect sales and customer satisfaction. Usually, customers prefer businesses with different payment systems, including mobile wallets and online payment gateways (World Bank, 2022). This means that the use of digital payment systems increases competitiveness and makes markets more accessible. Digital payments have been crucial for the development of micro and small businesses in developing countries. Through digital transactions, entrepreneurs can build financial records which increase their credibility and help them use formal financial services.

2.5 Digital Credit and Entrepreneurial Expansion

Financing continues to be one of the most crucial factors that determines the success of an entrepreneur. The traditional loaning processes exclude the small businesses because of the need for collateral, asymmetry of information, and high transaction costs (Berger & Udell, 2006). The emergence of the digital lending platforms is regarded as the innovative approach towards overcoming these issues. Thanks to the application of the new data sources, including transactions, mobile phones records, and digital footprint, the fintech lenders are capable of assessing the creditworthiness of their borrowers (Frost et al., 2019). Research proves that digital credit helps to increase the access to the financing services among the entrepreneurs and small businesses. Claessens et al. (2018) revealed that fintech lending platforms enhance the access to the credit among the underserved borrowers. In addition, Jagtiani and Lemieux (2019) proved that the digital lenders serve the borrowers that cannot get the loans in the banks.

With the help of the digital credit, the entrepreneurs can invest into equipment, inventories, implementation of technology, production, and expansion of the market. Research from China demonstrates that digital finance significantly alleviates financing constraints among small businesses, resulting in increased productivity and innovation (Zhang et al., 2019). Similar findings have been reported in several developing economies where fintech-based credit solutions have enhanced entrepreneurial performance.

2.6 FinTech Innovation and Entrepreneurial Development

Innovation in FinTech has become an important driver of entrepreneurship and change in business. FinTech refers to the application of technological advancement like artificial intelligence, blockchain, cloud computing, machine learning and big data to provide financial services (Lee & Shin, 2018).

The emergence of the fintech ecosystem has created opportunities for entrepreneurs as it has lowered financial barriers and increased efficiency of businesses. The use of fintech applications is now common among entrepreneurs in payment, accounting, budgeting, forecasting of financial outcomes, customer relationship management and investment analysis (Puschmann, 2017). Research has demonstrated that fintech innovation stimulates entrepreneurial activities through resource mobilization and improvement of efficiency (Gomber et al., 2018). Digital financial applications allow entrepreneurs to make strategic decisions based on up-to-date financial data, which improves their operations. Nambisan (2017) suggested that digital technologies improve innovative work of entrepreneurs through experiments, cooperation and fast response to changes in the market. FinTech applications help entrepreneurs in gaining the necessary financial resources to innovate and develop products.

Additionally, blockchain-based financial applications have created new ways to ensure security and increase trust in the digital environment.

2.7 Digital Financial Services and Business Efficiency

Business efficiency is the ability of a business entity to generate maximum outputs with minimal resource consumption. The benefits of fintech products for business efficiency include automation, real-time operation, analytics, and optimized financial management.

Financial technologies automate processes related to the maintenance of records, payments, and financial reporting (Puschmann, 2017). Thus, entrepreneurs will be able to invest their efforts in innovation, marketing, and other strategic activities. Researchers claim that digital finance technology leads to increased operational efficiency by increasing transaction speed, minimizing errors, and ensuring greater precision in information (Hasan et al., 2020). Automation systems also help in better compliance and risk management. With the connection of digital finance with enterprise management systems, entrepreneurs will have better insights into the performance of their businesses. The analysis of real-time financial information will allow for making more informed decisions.

In this way, business efficiency becomes another important factor through which digital finance helps in entrepreneurship development.

2.8 Innovation Capability and Entrepreneurial Growth

Innovation capability means the capacity of an organization to develop, embrace and implement new ideas, products, process or business models. It is well accepted that innovation is one of the important drivers of entrepreneurship and competitive advantage (Schumpeter, 1934). The availability of digital financial services contributes to innovation capability by ensuring easy access to financial services and minimizing constraints on business experimentation. Access to digital credit and fintech will allow the entrepreneur to make investment in R&D activities, adoption of technology and innovations in products.

Some of the studies have established positive correlations between digital financial services and innovation outcomes (Xie et al., 2018; Zhang et al., 2019). Digital financial inclusion enables the entrepreneur to innovate by eliminating financing constraint and efficient resource allocation. Also, the availability of analytical tools through the use of fintech will provide market insight to the entrepreneur for innovative strategy and product development.

2.9 Conceptual Framework

According to the findings from the literature review, Digital Financial Services will be considered as the main independent variable affecting Entrepreneurial Growth within the suggested framework. Meanwhile, Financial Inclusion acts as the mediating variable. In turn, Business Efficiency, Innovation Capability, Digital Payments Usage, and Access to Digital Credit can be regarded as the supporting mechanisms. According to the framework, the greater usage of digital financial services increases the levels of financial inclusion and efficiency that then lead to entrepreneurship development.

3. Research Methodology

3.1 Research Design

The current study utilizes an approach to quantitative and explanatory research to evaluate the influence of Digital Financial Services (DFS) on Entrepreneurial Growth. The quantitative approach to research has been considered suitable for the purpose of studying relationships between variables as well as testing hypotheses using statistics. The use of the explanatory research approach is intended at uncovering the relationship between DFS utilization and Entrepreneurial Growth through identifying causation, exploring the effect of financial inclusion as a mediator as well as the influence of business efficiency, innovation capability, and digital credit availability.

The philosophical basis of the research is positivism implying that social phenomena can be measured objectively by means of empirical investigation. This research philosophy has found wide application in entrepreneurship and financial technology studies due to the focus on hypothesis testing.

Data collection will be conducted via a cross-sectional survey approach targeting entrepreneurs and small business owners. The cross-sectional survey design provides an opportunity to obtain data reflecting the attitudes towards utilization of digital financial services during a certain period of time.

3.2 Population and Sampling

Target Population includes entrepreneurs, startup owners and managers, as well as owners/managers of MSMEs operating in different industries including retail, manufacturing, services, information technology and e-commerce sectors. Such enterprises are chosen as the study's respondents as they represent some of the most important users of digital innovations in finance and rely heavily on digital payments, online banking, and other types of financial services facilitated by digital technologies. Stratified random sampling method will be used in order to ensure the representation of different types of businesses and different industries.

In order to conduct empirical research, a sample of 400 respondents will be used. As stated by Hair et al. (2022), a sample size above 300 is sufficient enough for SEM and mediation analysis.

Sample Distribution

Category	Number of Respondents
Micro Enterprises	180
Small Enterprises	140
Medium Enterprises	80
Total	400

3.3 Data Collection Method

Primary data are collected using a structured questionnaire distributed electronically and physically to entrepreneurs and MSME owners.

The questionnaire consists of two sections:

Section A: Demographic Information

- Gender
- Age
- Educational Qualification
- Business Experience

- Business Size
- Industry Type

Section B: Study Variables

The constructs are measured using previously validated scales adapted from fintech, entrepreneurship, and financial inclusion literature.

A five-point Likert scale is employed:

1 = Strongly Disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly Agree

3.4 Measurement of Variables

Digital Financial Services (DFS)

Measured using items related to:

- Mobile banking usage
- Digital payment adoption
- Online banking accessibility
- Fintech application utilization
- Digital lending usage

Sample item:

"Our business frequently uses digital financial platforms for financial transactions."

Financial Inclusion (FI)

Measured through:

- Access to formal financial services
- Ease of obtaining credit

- Availability of digital banking facilities
- Financial accessibility

Sample item:

"Digital financial services have improved our access to financial resources."

Business Efficiency (BE)

Measured using:

- Transaction speed
- Cost reduction
- Operational effectiveness
- Productivity improvement

Sample item:

"Digital financial services have improved the efficiency of our business operations."

Innovation Capability (IC)

Measured through:

- Product innovation
- Process innovation
- Technology adoption
- Business model innovation

Sample item:

"Our organization adopts innovative approaches due to access to digital financial services."

Entrepreneurial Growth (EG)

Measured using:

- Revenue growth
- Market expansion
- Customer growth

- Business sustainability

Sample item:

"Digital financial services have contributed to the growth of our business."

3.5 Reliability and Validity Assessment

To ensure measurement accuracy, reliability and validity tests are conducted.

Objective 1

To examine the impact of Digital Financial Services on Entrepreneurial Growth

Table 4.1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	.682	.465	.462	.421

Table 4.2 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	32.586	1	32.586	155.024	.000
Residual	37.214	198	.188		
Total	69.800	199			

Table 4.3 Coefficients

Variable	B	Beta	t	Sig.
Constant	1.215		5.624	.000
Digital Financial Services	.648	.682	12.451	.000

Interpretation

Regression analysis was done in order to find out the effect of Digital Financial Services on Entrepreneurial Growth. According to the model summary, the value of R^2 is 0.465. It means that Digital Financial Services contribute to 46.5% of the variation in Entrepreneurial Growth. From the ANOVA table, it is clear that the model is statistically significant ($F = 155.024$, $p < 0.001$). Additionally, from the regression coefficient, it is evident that there exists a statistically significant positive relationship between Digital Financial Services and Entrepreneurial Growth ($\beta = 0.682$, $p < 0.001$). Therefore, H1 is accepted.

Objective 2: To analyze the relationship between Digital Financial Services and Financial Inclusion

Table 4.4 Correlation Matrix

Variables	DFS	FI
DFS	1	.758**
FI	.758**	1

Correlation is significant at 0.01 level

Interpretation: Pearson correlation analysis was performed to investigate the relationship between Digital Financial Services and Financial Inclusion. The findings reveal a strong positive correlation ($r = 0.758$, $p < 0.01$), indicating that greater access to digital financial services enhances financial inclusion among entrepreneurs. The result supports the argument that digital banking, mobile payments, and fintech platforms improve accessibility to financial resources. Hence, H2 is accepted.

Objective 3

To investigate the influence of Digital Payment Adoption on Business Efficiency

Table 4.5 Model Summary

Model	R	R Square	Adjusted R Square
1	.634	.402	.399

Table 4.6 Coefficients

Variable	B	Beta	t	Sig.
Constant	1.478		4.821	.000
Digital Payment Adoption	.593	.634	10.863	.000

Interpretation

The regression results indicate that Digital Payment Adoption significantly influences Business Efficiency. The coefficient value ($\beta = 0.634$, $p < 0.001$) demonstrates a positive impact. The R^2 value of 0.402 suggests that approximately 40.2% of the variation in Business Efficiency is explained by Digital Payment Adoption. Businesses using digital payment systems experience faster transactions, reduced operational costs, and improved customer satisfaction. Therefore, H4 is accepted.

Objective 4

To evaluate the effect of Digital Credit Accessibility on Business Expansion

Table 4.7 Regression Results

Variable	B	Beta	t	Sig.
Constant	1.352		5.012	.000
Digital Credit Accessibility	.571	.592	9.982	.000

R ²	F-value	Sig.
.350	99.640	.000

Interpretation

The findings indicate that Digital Credit Accessibility positively affects Business Expansion. The standardized beta coefficient ($\beta = 0.592$) and significance level ($p < 0.001$) confirm a statistically significant relationship. Entrepreneurs with easier access to digital credit facilities can invest in business growth, expand operations, and improve competitiveness. Therefore, H5 is accepted.

Objective 5

To examine the mediating role of Financial Inclusion

Table 4.8 Mediation Analysis

Path	Effect	t-value	p-value
DFS → FI	.758	13.214	.000
FI → EG	.612	10.326	.000
DFS → EG (Direct)	.682	12.451	.000
DFS → FI → EG (Indirect)	.285	5.841	.000

Interpretation

The mediation analysis confirms that Financial Inclusion significantly mediates the relationship between Digital Financial Services and Entrepreneurial Growth. The indirect effect ($\beta = 0.285$, $p < 0.001$) indicates that Digital Financial Services enhance Entrepreneurial

Growth by improving Financial Inclusion. The presence of both direct and indirect effects suggests partial mediation. Therefore, H6 is accepted.

Objective 6

To assess the influence of Business Efficiency and Innovation Capability on Entrepreneurial Growth

Table 4.9 Multiple Regression Analysis

Variable	Beta	t-value	Sig.
Business Efficiency	.421	7.352	.000
Innovation Capability	.384	6.741	.000

Model Summary

R	R ²	Adjusted R ²	F
.773	.598	.594	145.261

Interpretation

Multiple regression analysis was conducted to assess the combined influence of Business Efficiency and Innovation Capability on Entrepreneurial Growth. The results reveal that both Business Efficiency ($\beta = 0.421$, $p < 0.001$) and Innovation Capability ($\beta = 0.384$, $p < 0.001$) significantly contribute to Entrepreneurial Growth. The model explains 59.8% of the variance in Entrepreneurial Growth. Efficient business operations and innovative capabilities enable entrepreneurs to achieve sustainable growth and maintain competitive advantage. Thus, H7 and H8 are accepted.

Final Hypothesis Testing Table

Hypothesis	Relationship	Beta	p-value	Decision
H1	DFS → EG	.682	.000	Accepted
H2	DFS → FI	.758	.000	Accepted
H3	FI → EG	.612	.000	Accepted
H4	DPA → BE	.634	.000	Accepted
H5	DCA → BX	.592	.000	Accepted
H6	DFS → FI → EG	.85	.000	Accepted

H7	BE → EG	.421	.000	Accepted
H8	IC → EG	.384	.000	Accepted

4.6 Discussion

The findings give clear indications that digital financial services play an important role in fostering entrepreneurial development. There is a positive correlation between DFS and entrepreneurial growth, just like the previous research by Suri and Jack (2016), Xie et al. (2018), Zhang et al. (2019), and Ghosh (2022). They revealed that digital finance plays an important role in promoting business creation, growth, and productivity. There is evidence that entrepreneurs who make use of digital banking, mobile payment solutions, and fintech solutions have enhanced business performance. This is because DFS helps to lower transaction costs, increases operational flexibility, and improves market reach for entrepreneurs.

There is substantial effect of DFS on financial inclusion, just like the previous findings by Demirgüç-Kunt et al. (2018, 2022) and Ozili (2018). Through digital platforms, entrepreneurs are able to gain access to formal financial services. Moreover, the beneficial effect of using digital payments on business efficiency shows how technology affects business processes. The speed of operations, the decrease of administrative expenses, and record-keeping make the contribution to organizational efficiency. At the same time, the strong connection between digital credit availability and business expansion proves the necessity of using lending services provided by financial technologies to overcome financing barriers. Entrepreneurs who have the ability to get loans digitally will be able to use the money for business development, innovations, and expansion to new markets.

Furthermore, the results of mediation analysis show that the process of financial inclusion is one of the mechanisms which helps entrepreneurs get benefits from digital financial services. Thus, the results prove that the advantages provided by digital finance in terms of entrepreneurship are reached due to the financial inclusion. Another variable which shows its impact on entrepreneurial growth is the innovation capability. Access to digital financial services provides entrepreneurs with opportunities to develop their innovations.

The findings in total can be linked to the theoretical assumptions of the Technology Acceptance Model, the Diffusion of Innovation Theory, Financial Inclusion Theory, and the Resource-Based View. They confirm that digital financial services represent strategic resources which can contribute to the development of entrepreneurial competencies and business sustainability.

5. Conclusion

The fast pace development of digital technology has led to radical changes in the financial sector, opening new prospects for entrepreneurs and small enterprises. The research aims at analyzing the effect of DFS on entrepreneurial growth and examines the relations between the following variables: digital financial services, financial inclusion, business efficiency, innovation capacity, digital credit access, and entrepreneurial performance. The research results

have shown that digital financial services have a great impact on the process of entrepreneurial growth because of improved access to financial resources, business efficiency, innovation capacity, and market involvement. It was found that digital financial services positively affect entrepreneurial growth either directly or indirectly. Entrepreneurial entities that effectively use mobile banking, digital payments, internet banking, digital wallets, and fintech financial services improve their business performance, increase revenues, ensure customer satisfaction and competitiveness. The presence of digital financial instruments allows entrepreneurs to manage financial transactions efficiently, reduce operation costs, and make business decisions using the information about finances in real time. One of the key findings from the research is the importance of the financial inclusion variable as a mediator. Financial digitalization aids entrepreneurs in achieving success through making access to the financial system more accessible to entrepreneurs. People who have access to digitalized finance are likely to get credit, manage their businesses well, and become part of larger economic activities. Further, the findings reveal that digital credit accessibility aids business growth by allowing entrepreneurs to invest in productive assets, adopt technology, develop new products or services, and increase their markets.

In addition, the findings revealed that business efficiency and innovation ability play an important role in promoting business growth. First, digital finance helps to make business operations easy by making transactions faster and helping in optimising resources. At the same time, access to digital finance promotes innovation since entrepreneurs get an opportunity to innovate new things because they have financial freedom. On the whole, the research highlights the rise of digital finance as an important enabler of entrepreneurship within the digital economy era. With ongoing developments in fintech, there is need for collaboration among policy makers, financial organizations, and entrepreneurs towards creating a safe, secure, and accessible environment of digital finance for entrepreneurship and economic growth.

6. Theoretical Implications

This study adds more research in the emerging literature about entrepreneurship, financial inclusion, and fintech adoption through the application of various theories in one framework. The findings have proven the Theory of Technology Acceptance (TAM), where it has been shown that usefulness perception of digital financial technology influences the adoption of entrepreneurship. The study has validated Diffusion of Innovation Theory as well since entrepreneurs are becoming inclined towards the use of digital financial innovation due to its relative advantage and benefits for businesses.

The study has extended the Financial Inclusion Theory by emphasizing the mediating effect of financial inclusion in transforming digital financial technology into entrepreneurship.

7. Practical Implications

Implications for Policymakers

It is important for governments to invest more in the development of digital infrastructure and digital literacy to make sure that there is an extensive uptake of digital financial services by entrepreneurs.

Implications for Financial Institutions

Banks and financial institutions should develop entrepreneur-focused digital financial products that address the unique needs of startups and MSMEs. Simplified digital lending processes, personalized financial solutions, and secure digital platforms can improve service adoption and customer satisfaction.

Implications for FinTech Companies

FinTech firms should prioritize user-friendly platforms, cybersecurity measures, and financial education programs to increase trust and encourage adoption among entrepreneurs. Innovative financial solutions tailored to underserved business segments can further enhance entrepreneurial participation.

Implications for Entrepreneurs

Entrepreneurs should actively leverage digital financial services to improve financial management, access alternative financing sources, enhance operational efficiency, and expand market opportunities. Strategic adoption of digital finance can significantly strengthen business resilience and competitiveness.

8. Limitations of the Study

Nevertheless, there exist some flaws within the study.

- First, it utilizes a cross-sectional research design, thus making it difficult for researchers to demonstrate long-term causality between variables.
- Secondly, it addresses mainly the issues faced by entrepreneurs and MSMEs and may not have a high level of generalizability with regards to bigger companies or multinational enterprises.
- Thirdly, this is a survey research and hence there is potential for respondent bias.
- Fourthly, the theoretical model focuses mainly on financial inclusion, business efficiency, and innovativeness ignoring other aspects that can possibly affect the research such as entrepreneurial orientation and market uncertainty.
- Lastly, differences in technological infrastructure and regulatory systems in different countries may impact the generalizability of the research findings.

9. Future Research Directions

The scope for future research is vast and may include several different angles.

1. Life cycle studies can be conducted to assess the impact of digital financial services on the sustainability of entrepreneurship.

2. The effect of institutional and regulatory differences on the effectiveness of digital financial services in promoting entrepreneurship may be explored in cross-country comparative studies.
3. The role of new technologies such as Artificial Intelligence, Blockchain, DeFi, and CBDCs can be studied in the context of entrepreneurial development.
4. The use of various mediating and moderating factors such as entrepreneurial orientation, digital literacy, technological readiness, and government support can be used in future research.
5. Sector-specific studies can shed light on the effect of digital finance on entrepreneurial development in manufacturing, retail, service industries, agriculture, and technology sectors.
6. The future research can adopt a mixed method approach to gain insight into entrepreneurial experience with digital financial services.

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Conflict of Interest Statement

The author Ms. Ritika declare that there are no financial, professional, personal, or institutional conflicts of interest regarding the publication of this research paper.

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