The Impact of Electronic Payment Systems on the Financial Performance of Small and Medium Emterprises on Birendranagar, Surkhet

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Abstract

This study examines how the adoption of Electronic Payment Systems (EPS) influences the financial performance (FP) of Small and Medium Enterprises (SMEs) in Birendranagar, Surkhet, Nepal. The main objective is to assess the relationship between EPS usage and financial outcomes, considering factors like firm size and sectoral diversity. Adopting a quantitative research approach, the study combines descriptive and causal research designs to analyze both the current patterns of EPS use and its financial implications. Data were collected through structured questionnaires administered to a convenience sample of 150 SMEs operating in the retail, service, and manufacturing sectors. Descriptive statistics were used to outline EPS adoption trends, while correlation and regression analyses tested the hypothesized relationships using SPSS version 20. The findings reveal a significant positive relationship between EPS adoption and financial performance, with firm size also contributing to improved fiscal outcomes. SMEs using EPS experienced better revenue growth, operational efficiency, and transaction transparency. The study concludes that EPS adoption plays a vital role in strengthening the financial performance of SMEs in semi-urban areas like Birendranagar. It recommends that financial institutions and policymakers promote digital payment solutions tailored to the local business environment, facilitating broader EPS access and awareness to support SME growth and regional economic development.

Keywords: Electronic Payment Systems (EPS), Financial Performance (FP), Small and Medium Enterprises (SMEs), Digital Payments, Financial Inclusion

Introduction

The proliferation of electronic payment systems (EPS) has significantly transformed financial transactions worldwide, presenting numerous opportunities for businesses, including Small and Medium Enterprises (SMEs). EPS, encompassing mobile payments, internet banking, and digital wallets, offers a seamless, efficient, and secure way of conducting business transactions. For SMEs, especially those in developing regions like Birendranagar, Surkhet, the acceptance of such systems is not only a technological advancement but a strategic tool for enhancing financial performance and market competitiveness (Diniz et al., 2011).

EPS, which includes digital wallets, online banking, and mobile payment platforms, facilitates faster, more secure, and transparent financial transactions. In the context of SMEs, these systems show an essential role in improving operational efficacy, reducing transaction costs, and fostering financial inclusivity (Shah & Clarke, 2020). Studies have shown that electronic payments not only reduce costs but also contribute to revenue growth by facilitating seamless transactions and enhancing consumer trust (Rajan & Zingales, 2019).

Electronic payment systems have transformed SMEs by enhancing efficiency, reducing costs, and enabling secure, globally accessible transactions (Anderson & Swinton, 2020). EPS provides an opportunity to overcome traditional cash-based limitations and align with modern business practices (Omondi et al., 2019). Nepalese SMEs, which play a vital role in the national economy, have increasingly recognized the potential of EPS in improving financial performance. Research has revealed that the integration of EPS can lead to higher revenue generation, better customer retention, and enhanced competitiveness (Dhakal & Adhikari, 2021). Moreover, EPS adoption has been linked to improved access to formal financial systems and increased market reach, allowing businesses in rural and semi-urban areas to thrive (Khan et al., 2020).

Patel and Shah (2019) explored the economic impact of mobile wallet adoption on small businesses, focusing on operational efficiency, customer convenience, and revenue generation. It highlights the role of mobile wallets in reducing transaction time and improving cash flow, leading to enhanced financial performance. Kumari and Singh (2021) examined how a well-developed digital payment ecosystem supports the growth and sustainability of small businesses. The study uses case studies to illustrate how digital payments enable market expansion, reduce operational risks, and improve financial reporting.

Lin and Yu (2020) investigated the factors influencing the adoption of EPS in emerging markets and their subsequent impact on SME growth. It discusses the role of government policies, infrastructure development, and digital literacy programs in supporting EPS adoption. Carter and Roberts (2019) focused on the role of electronic payments in promoting financial inclusion for SMEs. It highlights the ability of EPS to bridge the financial access gap, particularly for underserved communities.

In Nepal, SMEs play an essential role in driving economic development, contributing significantly to employment and GDP. However, the heavy reliance on cash-based transactions has often limited their growth potential, especially in rural and semi-urban areas. With the increasing penetration of smartphones and internet connectivity, electronic payment systems have emerged as a viable solution to these challenges. Studies suggest that EPS can improve financial inclusion, streamline operations, and improve the financial outcomes of SMEs by dropping transaction expenses and increasing operational efficiency (Bank, 2020).

This study investigates the impact of EPS on the FP of SMEs in Birendranagar, Surkhet. It explores how EPS adoption affects revenue growth, cost management, and financial transparency. Additionally, it addresses barriers such as digital literacy, trust issues, and infrastructure constraints that may hinder the effective use of EPS in the region.

However, despite the advantages of EPS, many SMEs face challenges in adopting EPS due to factors such as lack of digital literacy, infrastructure limitations, security concerns, and resistance to change. This study addresses the disparity by analyzing how EPS adoption influences the financial performance of SMEs, identifying key drivers, challenges, and potential solutions.

In recent years, the growth of electronic payment systems (EPS) has reshaped the way businesses operate, offering improved efficiency, transaction security, and financial transparency. While numerous studies have explored the broader economic effects of digital financial services, limited attention has been given to how such systems specifically affect the financial performance of small and medium enterprises (SMEs) in emerging semi-urban markets like Birendranagar, Surkhet. Given the pivotal role SMEs play in Nepal's economy through employment generation and income distribution, it is essential to investigate how modern financial technologies influence their business outcomes.

Birendranagar, being a growing commercial hub, has witnessed increased accessibility to digital payment platforms. However, barriers such as limited digital literacy, infrastructural gaps, and traditional business practices have hindered widespread adoption. This study is motivated by the need to understand whether integrating EPS can effectively enhance profitability, operational efficiency, and market competitiveness

for SMEs in this regional setting. Furthermore, the research seeks to fill the empirical gap by providing context-specific evidence on the influence of EPS adoption on SME financial outcomes, offering valuable insights for business owners, financial service providers, and policymakers aiming to foster inclusive financial development.

The primary objective of this study is to examine the impact of EPS on the financial performance of SMEs in Birendranagar, Surkhet. Specifically, the study aims to:

- To examine the effect of adoption of EPS on financial performance in SME's.
- To analyze the influence of SME's size on financial performance in SME's.

This research focuses on assessing the impact of electronic payment systems on the financial performance of small and medium enterprises operating within Birendranagar municipality, Surkhet. The study encompasses SMEs from diverse sectors, including retail, manufacturing, and service industries. It considers firms that have been in operation for at least one year and either actively use or have considered adopting EPS for their business transactions.

The scope covers key financial performance indicators such as revenue growth, cost management, and financial transparency, examining how these metrics relate to the use of digital payment technologies. In addition, the study evaluates the influence of firm size as a moderating factor affecting the relationship between EPS usage and financial performance. The research is limited to a sample of 150 SMEs, selected through convenience sampling, and utilizes primary data collected through structured questionnaires. While the findings are contextualized to the Birendranagar region, they offer broader implications for similar semi-urban and emerging markets across Nepal.

Review of Literature
Financial Performance

Financial performance refers to a company's capacity to efficiently generate profits from its core operations while effectively utilizing resources to meet consumer needs. Key indicators include sales, transactional activities, and financial accessibility like savings and micro-credit. The integration of banking services with mobile technology has expanded financial access, especially for underserved populations, as noted by Tiwari and Buse (2007). Financial performance is commonly assessed through factors such as capital adequacy, liquidity, solvency, efficiency, leverage, and profitability, with financial statements serving as essential tools for decision-making. Financial innovations, including ATMs, deposit machines, and electronic banking, have transformed transactional processes, promoting convenience and reducing operational costs (Belanche et al., 2022; Kotarba, 2018; Migliore et al., 2022; Szumski, 2022). Maiyo (2013) highlighted that electronic banking improves profitability by lowering administrative and personnel expenses. Supporting this, studies by Mago and Chitokwindo (2014) in Zimbabwe and Asare and Sakoe (2015) in Ghana demonstrated that electronic banking positively impacts financial performance by enhancing operational efficiency and expanding market outreach. Collectively, these insights affirm the strategic importance of digital financial solutions in strengthening business performance, particularly for SMEs in developing economies.

Electronic Payment System
The rapid adoption of online payment systems by SMEs has significantly enhanced business performance by increasing sales, improving customer experience, and reducing operational costs (Alalwan et al., 2016; Joewono et al., 2017; Mugambe, 2017; Tonetic et al., 2021 Belanche et al., 2022; Purohit & Arora, 2023).

These systems enable businesses to access global markets and foster customer loyalty through convenience and faster transaction processing. Parallel to this, the evolution of online banking since the 1990s has reshaped the financial industry, with both traditional and digital-only banks leveraging internet-based services to cut costs and extend financial access (Berg & Kim, 2022; Georgescu & Jeflea, 2015; Liebenau et al., 2019). Although early adoption faced resistance, technological advancements and the rise of e-commerce normalized online financial services (Alalwan et al., 2016). This digital transformation has enabled banks to broaden their services, improve operational efficiency, and better serve a growing digital customer base (Takieddine & Sun, 2015; Grüschow et al., 2016; Kotarba, 2018; Siddik & Kabiraj, 2019), underscoring technology's pivotal role in redefining business and financial service models.

H_1: There is a significant relationship between EPS and Financial performance of SME's.

Firm Size

Firm size shows an essential role in shaping a company's profitability and operational efficiency, as larger firms often benefit from economies of scale and greater access to capital, enabling them to invest in technology, expand markets, and enhance competitiveness (Niresh & Velnampy, 2014; Oyelade, 2019). This relationship is vital for understanding corporate performance within evolving economic landscapes. Concurrently, advancements in mobile payment systems have transformed the operational dynamics of SMEs, offering secure, convenient, and cost-effective transaction options that improve financial management and customer engagement (Eniola & Entebang, 2015; Meroño-Cerdán et al., 2008; Xin et al., 2023; Fatoki, 2014; Liebenau et al., 2019; Ma & Cheok, 2022). Mobile banking, which has progressed from simple messaging services to comprehensive digital platforms, now provides functionalities like funds transfer and bill payment, increasing user accessibility and financial control (Okiro & Ndungu, 2013; Floh & Treiblmaier, 2015; Joewono et al., 2017; Purohit & Arora, 2023). This digital shift has notably strengthened customer satisfaction and operational efficiency (Bahl, 2012), with studies from Kenya affirming mobile banking's positive impact on business financial performance (Olwande & Ngaba, 2019). Together, firm size and the integration of digital financial services are reshaping business practices, offering SMEs expanded market reach, operational cost savings, and enhanced financial outcomes in an increasingly competitive, technology-driven environment.

H_2: There is a significant relationship between firm size and financial performance of SME's.

Conceptual Framework
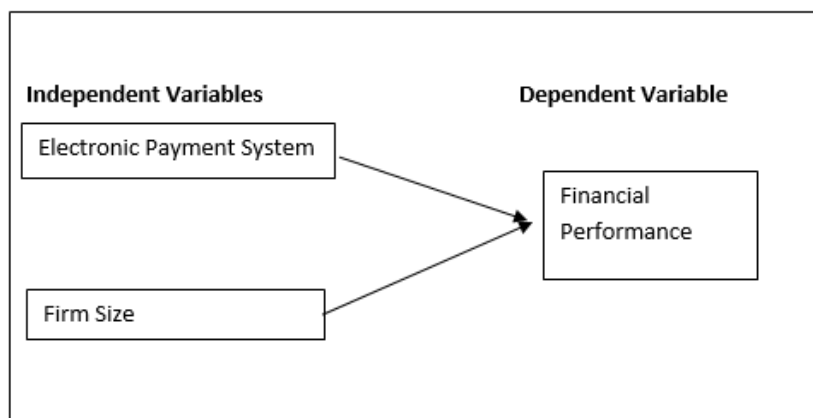
Methods

This study employs a quantitative research design that integrates both descriptive and causal components. The descriptive aspect aims to outline the current status of electronic payment system (EPS) usage among small and medium enterprises (SMEs) in Birendranagar, while the causal approach investigates the effect of EPS adoption and firm size on the financial performance of these businesses. A structured, objective framework was selected to enable statistical validation of the proposed relationships between the study variables. This design ensures that findings are measurable, generalizable, and appropriate for policy recommendations in semi-urban business contexts.

The study relies exclusively on primary data collected directly from SME operators in Birendranagar, Surkhet. Information was gathered through a structured, self-administered questionnaire designed to capture both demographic details and responses related to EPS usage and financial performance indicators. The questionnaire was adapted from previously validated instruments in related studies and refined through consultations with subject experts to maintain relevance and clarity within the Nepalese business environment.

A convenience sampling technique was adopted for this research, targeting SMEs across manufacturing, retail, and service sectors within Birendranagar municipality. The sampling frame included businesses that had been operational for at least one year and either currently use or have shown interest in adopting electronic payment systems. A total of 150 SMEs participated in the study, ensuring adequate representation across business categories and ownership demographics.

The primary instrument for data collection was a structured questionnaire divided into four sections: respondent demographics, EPS adoption status, firm size indicators, and financial performance measures. Responses related to EPS use and financial outcomes were recorded using a five-point Likert scale, ranging from 'strongly disagree' to 'strongly agree.' The questionnaire items were formulated based on an extensive literature review and expert feedback to ensure validity and contextual relevance.

Collected data were initially screened for completeness and consistency. Descriptive statistics such as frequencies, and percentages were employed to summarize demographic characteristics and EPS adoption patterns. To test the research hypotheses, correlation analysis was conducted to explore the relationships between EPS, firm size, and financial performance. Subsequently, multiple regression analysis was used to determine the predictive influence of EPS and firm size on SME financial outcomes. The data analysis was carried out using Statistical Package for the Social Sciences (SPSS) Version 20. The reliability of the measurement scales was confirmed through Cronbach's alpha, with values exceeding the acceptable threshold of 0.70, indicating internal consistency.

To uphold research integrity and protect participants' rights, several ethical measures were observed. Prior to data collection, informed consent was obtained from all respondents, clearly explaining the study's purpose, voluntary nature, and confidentiality of their responses. No personally identifiable information was recorded or disclosed. Respondents were assured that participation would not affect their business operations or access to financial services. All data were securely stored and used solely for academic purposes.

Results
Table 1
Descriptive Statistics

Variable	Categories	Frequencies	Percentage
Gender	Female	34	22.70%
	Male	116	77.30%
Age Group	18-40 years	104	69.30%
	41-60 years	46	30.70%
Education Level	Bachelor's Degree	58	38.70%
	High School or below	56	37.30%
	M. Phil/ Ph.D	6	4%
	Master's Degree	30	20%
SME's Operation Period	1-3 years	63	42%
	4-6 years	51	34%
	7-10 years	12	8%
	Less than 1 year	17	11.30%
	More than 10 years	7	4.70%
SME's Sector	Manufacturing	31	20.67%
	Retail	73	48.67%
	Services	46	30.67%
SME's Annual Revenue	Less than Rs. 1 Lakh	14	9.30%
	More than Rs. 20 Lakh	7	4.70%
	Rs. 1-5 Lakh	65	43.30%
	Rs. 10-20 Lakh	18	12%
	Rs. 5-10 Lakh	46	30.70%

Table1 displays the results of the respondents' demographic responses. The table reveals that the majority of respondents were male, comprising 77.30% (116 respondents), while female participants represented 22.70% (34 respondents). Regarding the age group of respondents, a significant portion (69.30%) fell within the 18-40 years' category, followed by 30.70% in the 41-60 years range. The educational attainment of the participants showed that 38.70% held a Bachelor's degree, while 37.30% had completed high school or below. Additionally, 20% possessed a Master's degree, and only 4% had attained an M. Phil/Ph.D. qualification. In relation to the operation period of SMEs, 42% of businesses had been operating for 1-3 years, indicating a concentration of newly established enterprises. This was followed by 34% operating for 4-6 years, 11.30% for less than a year, 8% for 7-10 years, and only 4.70% of SMEs had a business history exceeding 10 years.

As for the business sector, the largest proportion of respondents (48.67%) were engaged in the retail sector, followed by 30.67% in services, and 20.67% in manufacturing. Finally, considering the annual revenue of the SMEs, 43.30% reported earnings within the Rs. 1-5 Lakh range. This was followed by 30.70% with

revenues of Rs. 5-10 Lakh, 12% earning Rs. 10-20 Lakh, 9.30% earning less than Rs. 1 Lakh, and only 4.70% reporting annual earnings above Rs. 20 Lakh.

The data analysis process starts with data reliability and validity tests. This includes evaluation of the model by using the cronbach's alpha and consulting about the items with colleagues and senior professors.

Table 2

Reliability Test

Reliability Statistics		
Measures	**Cronbach's Alpha**	**No. of Items**
Electronic Payment System	0.71	10
Firm Size	0.795	10
Financial Performance	0.778	10
Overall	**0.82**	**30**

Table 2 presents the reliability statistics for the measurement scales used in this study, evaluated through Cronbach's Alpha coefficient. Reliability analysis was performed to assess the internal consistency of the items within each construct.

The Electronic Payment System measure, consisting of 10 items, recorded a Cronbach's Alpha value of 0.71, indicating acceptable reliability according to the commonly accepted threshold of 0.70 or higher (Hair et al., 2019). Similarly, the Firm Size construct, which also included 10 items, yielded a Cronbach's Alpha of 0.795, reflecting good internal consistency among the items. The Financial Performance scale demonstrated strong reliability as well, with a Cronbach's Alpha coefficient of 0.778 based on 10 items.

When considering all 30 items collectively, the overall reliability of the instrument was found to be 0.82, which signifies high internal consistency and suggests that the questionnaire as a whole is reliable for measuring the intended constructs.

Table 3

Correlation

	Electronic Payment System	Firm Size	Financial Performance
Electronic Payment System	1		
Firm Size	.612[**]	1	
Financial Performance	.819[**]	.762[**]	1

[**]. Correlation is significant at the 0.01 level (2-tailed).

Table 3 displays the Pearson correlation coefficients among the study variables: EPS, Firm Size, and FP. The correlation analysis was conducted to examine the strength and path of the linear relationships between these variables.

The results indicate a strong positive relationship between the EPS and Financial Performance i.e. r = 0.819. Similarly, Firm Size was found to have positive correlation with Financial Performance (r = 0.762). All correlations were statistically significant at the 0.01 level (2-tailed), confirming the existence of substantial and meaningful linear associations between the variables included in the study.

Regression Model

Table 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.785[a]	.894	.873	.48572

a. Predictors: (Constant), Firm Size, Electronic Payment System

b. Dependent Variable: Financial Performance

Table 4 provides the model summary for the regression analysis assessing the effect of EPS and Firm Size on FP. The R value of 0.785, indicating a strong positive correlation between the combined independent variables and the dependent variable. The R Square (R^2) value is reported at 0.894, suggesting that approximately 89.4% of the variation in Financial Performance can be explained by the predictors. After adjusting for the number of predictors, the Adjusted R Square is 0.873, which remains considerably high. This value confirms that even after accounting for sample size and the number of variables in the model, the predictors still explain a large portion of the variance in Financial Performance.

Overall, these results confirm that the regression model provides a strong and reliable fit to the data, making it suitable for interpreting the influence of EPS and Firm Size on the financial performance of SMEs.

Table 5

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.822	2	1.911	8.099	.000[b]
Residual	34.681	147	.236		
Total	38.503	149			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Firm Size, Electronic Payment System

Table 5 presents the ANOVA results for the regression model assessing the combined effect of Electronic Payment System and Firm Size on Financial Performance. This analysis was conducted to determine whether the proposed model provides a statistically significant fit to the data.

Since the p-value is less than 0.01, the result confirms that the overall regression model is statistically significant at the 1% significance level. In other words, the combination of Firm Size and Electronic Payment System significantly explains variations in Financial Performance among the SMEs included in the study.

This outcome indicates that the fitted model is appropriate for explaining the relationship between the selected independent variables and the dependent variable, providing a good fit to the observed data.

Table 6

Coefficients

	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	1.945	.381			5.101	.000
Electronic Payment System	.185	.095	.158		1.943	.035
Firm Size	.240	.083	.235		2.895	.004

a. Dependent Variable: Financial Performance

Table 6 presents the regression coefficients for the model examining the impact of EPS and Firm Size on FP. Both the dependent variables have positive and statistically significant at standard value. The unstandardized beta coefficient shows that 1-unit increase in EPS and firm size increases the financial performance by 0.185 and 0.240 units respectively and vice versa.

In summary, both predictors, Electronic Payment System and Firm Size have significant and positive influences on the financial performance of SMEs, reinforcing the importance of digital payment adoption and business scale in enhancing financial outcomes.

Discussion

This study examined the impact of EPS on the financial performance of SMEs in Birendranagar, Surkhet. The results demonstrate a statistically significant positive relationship between EPS adoption and enhanced financial performance ($\beta = 0.185$, p = 0.035), supporting hypothesis H_1. The positive association between EPS adoption and financial performance is consistent with previous studies by (Diniz et al., 2011; Shah & Clarke, 2020) but provides novel empirical evidence for Nepal's semi-urban context. Similarly, firm size has significant positive relationship with financial performance ($\beta = 0.240$, p = 0.004), confirming H_2. The effect of firm size supports conclusions by Niresh and Velnampy (2014); Patel and Shah (2019), who highlighted that larger firms can better capitalize on technological adoption due to greater resources, digital infrastructure, and operational flexibility.

This study conclusively establishes that the integration of electronic payment systems significantly improves the financial performance of SMEs in Birendranagar, Surkhet. It confirms the importance of digital financial services in emerging markets and underscores the contextual challenges faced by smaller firms. The study enriches the literature on financial inclusion and digital transformation in developing economies by offering localized empirical evidence. By verifying that both EPS adoption and firm size play crucial roles in determining financial outcomes, the study contributes meaningful insights to existing models of digital financial service adoption. These findings advocate for a multi-faceted approach combining policy support, financial institution innovation, and SME capacity-building initiatives to foster digital financial integration in Nepal's regional business environments.

Conclusion

This study reveals that EPS significantly strengthen the financial performance of SMEs in Birendranagar, Surkhet. Statistical analysis reveals a robust positive correlation between EPS adoption and enhanced financial outcomes, including revenue growth, operational efficiency, and transactional transparency. Regression modeling further confirms that both EPS integration and firm scale serve as critical drivers of financial improvement. These findings validate EPS as a transformative tool for SMEs in semi-urban Nepal,

where traditional cash dependence has historically constrained growth potential. Despite persistent challenges such as technological infrastructure gaps and digital skill shortages, this study positions EPS adoption as a strategic imperative for competitiveness in emerging digital economies.

This investigation extends financial inclusion theory by empirically confirming EPS benefits in under-researched semi-urban contexts like Surkhet. It challenges uniform adoption frameworks by demonstrating how firm size influence technological efficacy, underscoring that scalability influences resource allocation for digital transformation. The research thus contributes nuanced insights to technology acceptance models in developing economies.

For SME operators, prioritizing EPS integration can reduce transaction costs, expand market reach, and improve financial monitoring. Addressing adoption barriers requires investing in staff digital literacy programs and transparent security protocols. Financial institutions should develop accessible EPS solutions featuring local language interfaces. Policymakers must accelerate digital infrastructure development through broadband expansion projects and stimulate EPS uptake via tax incentives or SME technology subsidies. Development agencies can amplify impact by funding community-focused awareness initiatives that build trust in digital transactions and demonstrate EPS success stories.

Subsequent studies should investigate cultural resistance to cashless systems in Nepal's regional contexts, conduct sector-specific analyses of EPS impacts (e.g., retail versus manufacturing), and track longitudinal sustainability outcomes post-EPS implementation. Comparative regional studies across Nepal's diverse economic zones would further contextualize these findings.

This synthesized conclusion and implications section consolidates empirical evidence while providing actionable guidance tailored to Nepal's semi-urban SME ecosystem, ensuring academic rigor and practical relevance.

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