

Digital Payments: Barrier or Boon for Entrepreneurs' Success - A Case Study of Saudi Arabia

Ruby Khan

*Jazan University KSA,
College of Business Administration
Department of Finance and Banking*

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ABSTRACT

Purpose: This research paper examines the impact of digital payments on the success of entrepreneurs in Saudi Arabia. With the increasing adoption of digital payment systems worldwide, it is crucial to understand how this shift influences the entrepreneurial landscape.

Methodology: This research employs a descriptive and analytical approach to investigate the impact of digital payments on entrepreneurs' success in Saudi Arabia. The study utilizes secondary data from reputable sources to analyze the relationship between digital payment adoption and entrepreneurial outcomes.

Findings: The research reveals that while digital payments offer enhanced financial efficiency and access to a wider market for entrepreneurs in Saudi Arabia, challenges such as technological infrastructure gaps and security concerns remain significant barriers to their full adoption and utilization.

Limitations: The study may not have taken into account all potential external factors influencing entrepreneurial success due to the dynamic nature of the digital landscape, which could affect the findings' temporal relevance.

Practical implications: The findings will contribute to a deeper understanding of the role of digital payments in fostering entrepreneurship and provide recommendations for policy-makers and entrepreneurs in Saudi Arabia.

Originality/ Value: This research stands out for its examination of how digital payments influence entrepreneurs' success in Saudi Arabia, a context undergoing significant digital transformation. This uniqueness offers insights crucial for policymakers and entrepreneurs in leveraging digital payments strategically, amplifying economic growth and innovation.

Keywords: Cashless Transactions, E-commerce Growth, Financial Innovation, Fintech Adoption, Point of Sale transactions

I. INTRODUCTION

In recent years, digital payment systems have revolutionized the way financial transactions are conducted, transforming traditional cash-based economies into digitally driven ones. The widespread adoption of digital payments has had profound implications for various sectors, including entrepreneurship. Entrepreneurs, who play a vital role in economic growth and job creation, have been significantly influenced by this digital transformation. Therefore, it is essential to explore the impact of digital payments on the success of entrepreneurs and understand the barriers and benefits associated with this shift.

Increasing adoption of electronic payments has led to significant increases in sales volume, lowering barriers to immediate credit and liquidity, as well as easing geographical restrictions on trade and exchange.

No matter the nature of the business, businesses from large corporations to small and medium-sized enterprises are embracing digital modes of payment for their simplicity and ease of use. Most governments and countries are taking steps to make their economies cashless.

Customers and suppliers in high-income countries routinely use electronic payments to make payments to suppliers, tax authorities, and others (Khan & Hakami, 2022). More than a third of adults in developing countries report being self-employed, yet digital payments are an underdeveloped business tool. Bringing more people into the formal financial system can have significant benefits for entrepreneurs as well as society. Mobile phone ownership is exponentially growing in developing countries, making digital

payments a viable option for entrepreneurs everywhere. (Leora Klapper, 2017)

In developing markets, digital payment platforms are simple, secure, and beneficial to entrepreneurs because they facilitate greater transparency, which speed up business development. Therefore, businesses are able to obtain business licenses more quickly, become more involved in e-commerce, and manage their supply chains better, reducing costs and saving time (R Khan et al., 2023). It also gives entrepreneurs financial credibility, which allows them to raise more working capital and become large-scale entrepreneurs. (Andrew, 2021)

By exploring the relationship between digital payments and entrepreneurial success, this research paper aims to contribute to the growing body of knowledge on the subject (Syed et al., 2021). The findings can serve as a valuable resource for entrepreneurs, policymakers, financial institutions, and other stakeholders involved in fostering a supportive environment for entrepreneurial ventures in Saudi Arabia and beyond.

II. LITERATURE REVIEW

The advent of digital payment systems has revolutionized the entrepreneurial landscape, providing new opportunities and challenges for entrepreneurs. Digital payments have become an integral part of the entrepreneurial ecosystem, enabling seamless financial transactions and empowering individuals to start businesses more easily. A study done by Alswaigh et al. investigates the factors influencing the adoption of mobile payment services in Saudi Arabia. It explores the perceptions and attitudes of users towards mobile payments, shedding light on the drivers and barriers to adoption among entrepreneurs and consumers. (Alswaigh & Aloud, 2021)

The aim of the article written by Mohammad Yamin and Osama Al Harbi is to analyze and report the behaviors of the Saudi Arabian consumers towards the online shopping in the Makkah region. Their study also attempts to understand the relationship between demographic variables and online shopping adoption. (Yamin & O Al Harbi, 2016)

Digital payment systems require individuals to have access to formal financial services. However, limited financial inclusion poses a significant challenge for entrepreneurs, particularly in developing economies. Research by Paula et al. highlights the importance of promoting financial inclusion initiatives to ensure that entrepreneurs can fully leverage digital payment

systems. (Paulo L. dos Santos & Ingrid Harvold Kvangraven, 2017)

Digital payments enable entrepreneurs to overcome geographical limitations and tap into a wider market. E-commerce platforms and online marketplaces allow entrepreneurs to reach customers globally, expanding their market opportunities and potentially increasing their success. (Raharja, 2020)

In a paper entitled 'An Empirical Study of Mobile Commerce and Customers Security Perception in Saudi Arabia', authors explored customers' security perception regarding some leading mobile commerce applications in Saudi Arabia. (Gull et al., 2022)

Entrepreneurs face trust and security concerns when adopting digital payment systems. Amita Goyal Chin et al. in an article emphasize the need for robust security measures to mitigate risks such as fraud, data breaches, and cyber-attacks. Addressing these concerns is crucial to building trust and encouraging entrepreneurs to embrace digital payments. (Chin et al., 2022)

Inadequate technological infrastructure poses a significant barrier to the effective utilization of digital payment systems among entrepreneurs. A study by Chinedu Ochinawata et al. emphasizes the importance of robust technological infrastructure, including reliable internet connectivity and secure payment platforms, for the successful adoption of digital payments. (Ochinawata et al., 2023)

Digital payments provide convenience and flexibility to customers, leading to improved customer experiences. Entrepreneurs who offer a variety of digital payment options can attract a broader customer base and enhance customer satisfaction. This, in turn, can drive sales and business growth. (Nathani et al., 2022)

Digital payment systems offer entrepreneurs improved financial efficiency by reducing transaction costs and streamlining financial operations. According to a study by Klapper, digital payments enable entrepreneurs towards more accurate financial records and better resource allocation. (Klapper, 2023)

III. OBJECTIVES

Saudi Arabia, a prominent economic powerhouse in the Middle East, has embraced digital transformation as part of its Vision 2030 plan. The kingdom has witnessed rapid advancements in its digital infrastructure and a surge in digital payment systems' adoption. This research paper focuses on Saudi Arabia as a case

study to analyze the effects of digital payments on entrepreneurial success in the region.

The objectives of this study are twofold: first, to identify the barriers faced by entrepreneurs in utilizing digital payment systems effectively, and second, to assess the benefits digital payments offer to entrepreneurs and their overall impact on success. By delving into these aspects, policymakers, entrepreneurs, and other stakeholders can gain insights to enhance the entrepreneurial ecosystem in Saudi Arabia and beyond. The results of this study are expected to provide benefits both theoretically and managerially.

IV. METHODOLOGY

This research employs a descriptive and analytical approach to investigate the impact of digital payments on entrepreneurs' success in Saudi Arabia. The study utilizes secondary data from reputable sources to analyze the relationship between digital payment adoption and entrepreneurial outcomes.

V. FINDINGS

Barriers faced by entrepreneurs in utilizing digital payment system

Technological Barriers: Entrepreneurs who lack technical expertise might struggle to understand the complexities of digital payment systems. Implementing these systems could be daunting, especially if they involve integrating with existing business processes.

Initial Costs: The adoption of digital payment systems often comes with upfront costs. These costs include purchasing hardware like point-of-sale terminals or payment gateways, software licenses, and security measures such as SSL certificates. For small businesses with tight budgets, these expenses can be a significant barrier.

Security Concerns: Entrepreneurs are concerned about the security of digital payments. The risk of data breaches, hacking, and fraud can deter them from fully embracing digital payment methods. Ensuring the security and privacy of customer information is a top priority.

Resistance to Change: Entrepreneurs accustomed to traditional payment methods may resist adopting new digital technologies due to the perceived disruption they bring to established processes. This resistance could come from both entrepreneurs and their employees.

Customer Adoption: If customers are not comfortable with or accustomed to digital payments, entrepreneurs might face challenges in convincing them to use these methods. Some

customers might prefer the familiarity of cash transactions or have concerns about the security of online payments.

Lack of Infrastructure: In regions with inadequate internet connectivity, entrepreneurs may struggle to implement digital payment systems. Unreliable internet access can lead to transaction failures and inconvenience for both entrepreneurs and customers.

Integration Challenges: Integrating digital payment systems with existing business systems like accounting or inventory management can be complex. Compatibility issues might arise, leading to data discrepancies and operational disruptions.

Training and Education: Entrepreneurs and their staff need proper training to use digital payment systems effectively. The lack of training can result in errors, delays in processing payments, and inefficient customer interactions.

Regulatory Compliance: Different regions and countries have diverse regulations and compliance requirements for digital payments. Entrepreneurs must navigate these legal complexities to ensure their digital payment strategies are compliant, adding a layer of complexity to adoption.

Vendor Selection: Choosing the right digital payment service provider is crucial. Entrepreneurs need to evaluate factors such as transaction fees, security features, customer support quality, and the scalability of the platform. Making the wrong choice can lead to wasted resources and customer dissatisfaction.

Customer Experience: Ensuring a smooth and user-friendly customer experience with digital payments is essential. Entrepreneurs need to design interfaces that are easy to use, minimize steps in the payment process, and provide adequate customer support in case of issues.

Cultural Factors: Cultural preferences can influence payment habits. In regions where cash transactions are deeply ingrained in the culture, entrepreneurs might find it challenging to shift customers towards digital payment methods. Building trust in digital transactions is critical.

Benefits digital payments offer to entrepreneurs:

1. PU (Perceived Usefulness) of Digital Payments for Entrepreneurs

Perceived usefulness in the context of digital payments for entrepreneurs reflects how entrepreneurs believe that integrating digital payment systems into their operations can bring tangible benefits and improve their overall business performance. Entrepreneurs weigh the benefits of increased efficiency, improved cash flow

management, customer satisfaction, data insights, security, and technological integration against any potential challenges or costs associated with adopting digital payment systems. Their perception of the usefulness of these systems guides their decision to integrate them into their business strategies. (Dmour et al., 2021)

Enhanced Operational Efficiency: Entrepreneurs perceive digital payments as a tool that streamlines their business operations. By automating transactions and eliminating the need for manual cash handling, digital payments reduce the chances of human errors and the time spent on reconciling accounts. Entrepreneurs can focus their efforts on core business activities rather than mundane administrative tasks.

Convenience and Accessibility: Entrepreneurs recognize that digital payments offer a convenient and accessible method for customers to make purchases. With digital payment options, customers can make transactions from anywhere, anytime, eliminating the geographical limitations associated with traditional payment methods. This expanded accessibility can attract a broader customer base, potentially leading to increased sales.

Real-Time Transaction Monitoring: The ability to monitor transactions in real-time is highly valued by entrepreneurs. Digital payment platforms provide instant notifications of incoming payments, ensuring that entrepreneurs can maintain an up-to-date view of their financial inflows. This real-time monitoring is particularly useful for cash flow management and making timely business decisions.

Cash Flow Management: Entrepreneurs perceive digital payments as a means to better manage their cash flow. They can forecast cash flow projections more accurately due to the predictable timing of digital transactions. This information aids in planning expenses, investments, and growth strategies effectively.

Data-Driven Insights: Many digital payment systems offer detailed analytics and reports. Entrepreneurs appreciate the value of these insights, which can provide information about customer purchasing behavior, popular product lines, peak sales times, and more. Such data enables entrepreneurs to make informed decisions to optimize their product offerings and marketing strategies.

Security and Trust: Entrepreneurs value the security features embedded in digital payment systems. The use of encryption, secure authentication methods, and fraud detection mechanisms instills confidence in both entrepreneurs and their customers. This perceived security encourages entrepreneurs to adopt digital

payments, even in industries where security concerns are paramount.

Competitive Edge: Entrepreneurs perceive the adoption of digital payments as a way to stay competitive in a rapidly evolving business landscape. Offering a variety of payment options, including digital ones, enhances the overall customer experience. This can lead to customer loyalty, positive reviews, and word-of-mouth referrals, ultimately contributing to sustained business growth.

Integration with Technology: Entrepreneurs who are technologically inclined might appreciate the compatibility of digital payment systems with other business technologies. Many digital payment solutions seamlessly integrate with accounting software, inventory management systems, and e-commerce platforms, reducing manual data entry and potential errors

2. PEOU (Perceived Ease of Use) of Digital Payments for Entrepreneurs

Perceived ease of use of digital payments for entrepreneurs centers around their assessment of how easily they can navigate, understand, and complete transactions using the digital payment systems. An intuitive user interface, straightforward processes, minimal training requirements, and integration with their workflow contribute to a positive perception of ease of use. This perception plays a critical role in determining whether entrepreneurs are motivated to adopt and embrace digital payment methods in their business operations. It involves the entrepreneurs' perception of the simplicity and convenience associated with adopting and utilizing digital payment methods within their business operations. (Abd Malik & Syed Annuar, 2019)

User Interface and Navigation: Entrepreneurs assess the design of the user interface of digital payment platforms. They consider the layout, visual elements, and organization of the platform. If the interface is intuitive and easy to navigate, entrepreneurs are more likely to perceive the system as easy to use.

Intuitiveness: Entrepreneurs evaluate whether the process of initiating and completing a digital payment is straightforward and requires minimal effort. An intuitive process reduces the cognitive load on entrepreneurs, making it easier for them to navigate the payment process without confusion.

Technical Jargon: Entrepreneurs assess whether digital payment platforms use technical jargon that might be unfamiliar to them. A lack of technical language and complex terminology contributes to

the perception of ease of use, as entrepreneurs can comprehend the process more easily.

Transaction Flow: Entrepreneurs consider the flow of steps involved in conducting a digital payment. If the process follows a logical sequence, presents information clearly, and guides them through each step, they are more likely to perceive the system as easy to use.

Accessibility: Entrepreneurs evaluate the accessibility of digital payment systems across different devices and platforms. If the platform is available on various devices, such as smartphones and computers, and provides a consistent experience, entrepreneurs find it convenient to use.

Minimal Training Requirements: Entrepreneurs perceive ease of use when they can quickly understand how to use the digital payment system without the need for extensive training. Systems that require minimal training are more likely to be perceived as user-friendly.

Error Handling: Entrepreneurs assess how well the digital payment system handles errors or mistakes during transactions. If the system provides clear error messages and prompts for correcting mistakes, it enhances the perception of ease of use.

Technical Support: Entrepreneurs consider the availability of technical support when using digital payment systems. If responsive and readily available support is provided, entrepreneurs feel more confident in using the system, knowing that assistance is accessible if needed.

Integration with Workflow: Entrepreneurs assess how seamlessly the digital payment system integrates with their existing business workflow. If the system aligns with their processes and minimizes disruptions, entrepreneurs perceive it as user-friendly.

Familiarity with Technology: Entrepreneurs evaluate how well the digital payment system

accommodates users with varying levels of technical expertise. A system that caters to both tech-savvy users and those less familiar with technology is perceived as more inclusive and user-friendly.

Time Efficiency: Entrepreneurs consider the amount of time required to complete a digital payment transaction. If the process is quick and efficient, entrepreneurs perceive the system as contributing to time savings in their busy schedules.

Digital payments that are adopted in Saudi Arabia by various sectors

In Saudi Arabia, a variety of digital payment methods have been adopted across various sectors due to the increasing popularity and advancements in financial technology. The adoption of POS systems in Saudi Arabia likely began in the late 1990s and early 2000s. During this period, electronic payment methods, including credit and debit cards, started becoming more prevalent in the country. Businesses, especially larger retailers and chains, began implementing POS systems to accept card payments from customers (Al-Sudairy & Tang, 2000). By the mid-2000s, the use of POS systems had become more widespread in various sectors, including retail, hospitality, and services. The Saudi Arabian Monetary Authority (SAMA) introduced regulations and guidelines to promote electronic payments and enhance the security of transactions. The adoption of POS systems continued to grow throughout the 2010s. The availability of POS systems expanded to smaller businesses, contributing to the wider adoption of electronic payments. Modern POS systems support a variety of payment options, including contactless cards and mobile wallets (Figure 1).

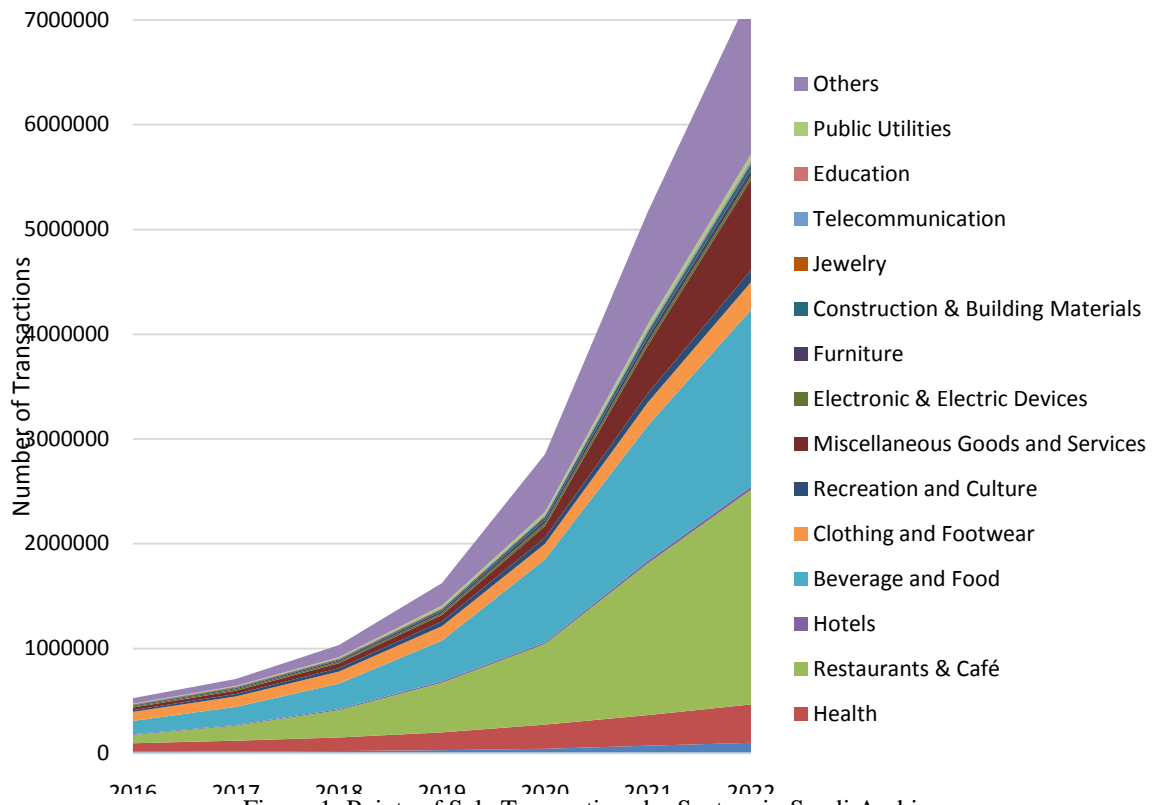


Figure 1: Points of Sale Transactions by Sectors in Saudi Arabia

Source: Statistical Report, SAMA(Statistical Report, n.d.)

On the other hand, Mada card payments involve transactions made using Mada-branded debit cards issued by banks in Saudi Arabia. These cards are widely accepted for various types of payments, including POS transactions. During the period of 2005-2010, banks began issuing Mada debit cards to customers, which could be used for various transactions, including online shopping. With the advancement of technology and the growth of e-commerce globally, the adoption of electronic payments, including Mada cards, for online transactions increased significantly (Figure 2). During this decade, various initiatives were launched to promote secure online payments and increase consumer confidence in using electronic payment methods for e-commerce. In recent years, Saudi Arabia has witnessed a surge in e-commerce

activities, driven by factors such as increased internet penetration, smartphone usage, and changing consumer behavior.

Mada cards have been one of the preferred methods for online payments due to their wide acceptance and security features however, in addition to Mada cards, there are various other debit and credit card networks that are widely accepted for POS payments in Saudi Arabia. Consumers have options to use different card types, leading to a more diverse distribution of transactions among various card networks. Consumers hold multiple payment cards from different networks, and their choice of payment method could depend on factors such as rewards, benefits, and promotions associated with specific card networks.

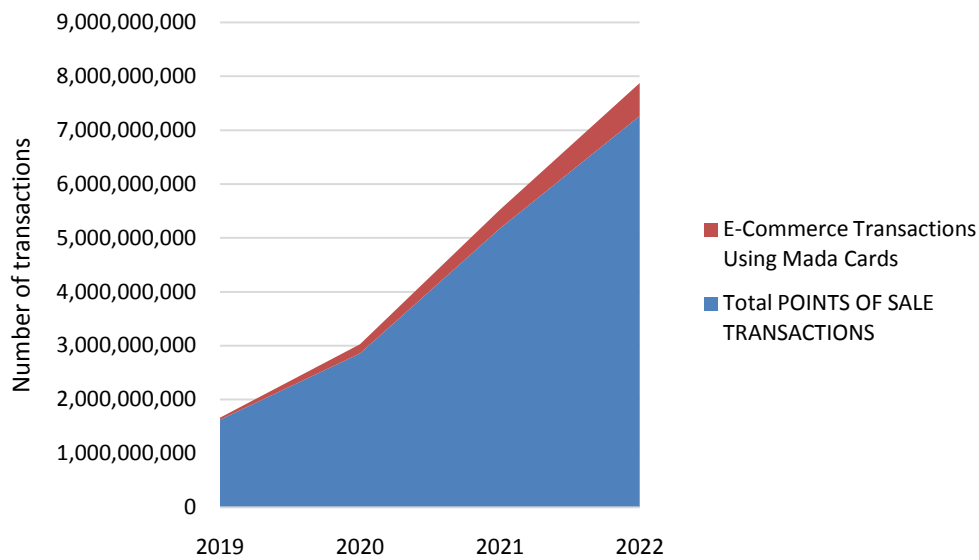


Figure 2: Points of Sale Transactions And E-Commerce Transactions (Mada Cards)

Source: Statistical Report, SAMA(Statistical Report, n.d.)

In recent years, Saudi Arabia has been actively promoting its Vision 2030 plan, which includes a focus on digital transformation and modernizing the financial sector. Initiatives aimed

at increasing cashless transactions, such as the adoption of electronic payment systems, mobile wallets, and QR code payments, have been gaining momentum (Figure 3).

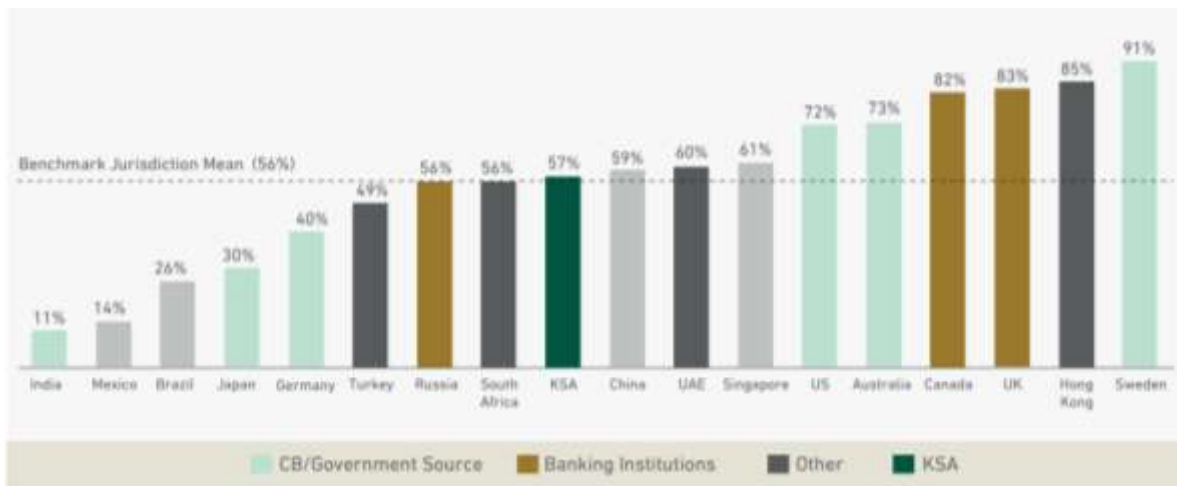


Figure 3: Non-cash payments share in selected countries

Source: National Payments Usage Study, SAMA (National_Payments_Usage_Study_en.Pdf, n.d.)

VI. CONCLUSION

Through a comprehensive analysis of the literature and a case study of Saudi Arabia, this research underscores the significance of addressing these challenges to fully harness the potential of digital payments. Entrepreneurs must navigate the complexities of technological integration, ensure data security, and cultivate a customer base receptive to cashless transactions. Amidst these challenges lie remarkable prospects for business

growth and innovation, positioning entrepreneurs on the cusp of a dynamic digital economy.

As Saudi Arabia continues its evolution towards a cashless society, policymakers, financial institutions, and entrepreneurs themselves must collaborate to create an enabling environment. Strategic investment in digital infrastructure, education, and regulatory frameworks will be pivotal in driving the seamless transition towards widespread digital payment adoption. This research

underscores the pivotal role that digital payments play as both a barrier to overcome and a boon to leverage, ultimately shaping the trajectory of entrepreneurial success in the digital age.

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