

# *Financial Literacy for Business Sustainability: A Case of Lekhnath, Kaski, Nepal*

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## Abstract

Business sustainability has become a big issue for entrepreneurs in developing countries like Nepal. Financial literacy empowers individuals and entrepreneurs in financing and investment decision-making, thereby developing a foundation for business sustainability. The research evaluates how financial literacy impacts small and medium enterprise (SME) sustainability at Lekhnath Kaski Nepal because business owners in this area lack essential financial management expertise which hinders their ability to run enterprises successfully over extended periods. Financial literacy represents a complex concept which includes financial planning and financing decision-making and investment decision-making and liquidity management and risk management and digital financial ability. The researchers applied a quantitative descriptive analytical research approach to gather primary data from 204 entrepreneurs through a structured questionnaire and stratified sampling method. The researchers used descriptive statistics and correlation analysis and multiple regression analysis to analyze the data. The study demonstrates that entrepreneurs possess moderate to high financial literacy skills but they excel in financial planning and liquidity management while their digital financial and risk management abilities remain less developed. The statistical analysis demonstrates that financial literacy increases business sustainability whereas investment decision-making ability serves as the most important factor for business sustainability. The results indicate that policymakers and institutions need to establish structured financial literacy programs together with digital finance training programs which will help SMEs in Nepal achieve better sustainability results.

**Keywords:** Business sustainability, Digital finance, Entrepreneurs, Financial literacy

## Introduction

Financial literacy is essential for individuals and entrepreneurs to manage their households and businesses. Financial literacy is an emerging issue among many entrepreneurs who often struggle to understand and apply it in their business. Financial literacy is an important factor for rational financial decisions (OECD, 2019). Financial literacy functions as a vital element which impacts the achievement of sustainable development goals (SDGs). Financially literate individuals demonstrate a stronger tendency to make investment decisions and establish savings while they simultaneously maintain control over their debt levels according to Elbanna et al. (2025). Financially literate entrepreneurs possess superior abilities to control cash flow and maintain precise financial documents and evaluate

investment opportunities and comprehend their debt limits. The lack of financial literacy skills creates a pathway that leads to inadequate financial planning which results in liquidity challenges and business collapse according to Lusardi and Mitchell (2014).

The process of entrepreneurship involves establishing a new business which includes its development and management until it achieves success. The process drives economic development because it creates employment opportunities and establishes the economic foundation which supports national progress (Abdulwahab & Al-Damen, 2015). Basic financial literacy skills function as the necessary components which make entrepreneurship successful for entrepreneurs who want to establish businesses (Bii et al., 2024). The inability to understand financial matters prevents new businesses from succeeding because entrepreneurs need these skills to handle cash flow and obtain funding (Wise, 2013). Business sustainability depends on financial literacy because it enables companies to make decisions which support their long-term business objectives. Small and medium-sized enterprises use this framework to develop business strategies which balance their need to sustain operations with their goal of generating profits (Gathungu & Sabana, 2018).

Business sustainability exists when companies design their operations to achieve permanent economic success while considering their social and environmental effects (Elkington 1997). Many entrepreneurs in Nepal begin their businesses with great passion but lack the financial management expertise needed to maintain operations. A sizable portion of SMEs function informally, lacking conventional financial control systems or bookkeeping procedures. The organization experiences major problems because this deficiency leads to inefficient operations and incorrect financial spending and to missed opportunities to achieve corporate objectives. The development of entrepreneurial skills requires financial education to become an important component for the local economies of Nepal (Karki & Upadhyaya, 2022).

Financial literacy proves to be a vital asset for SMEs because it enables them to obtain necessary external funding which sustains their operations throughout time. Business owners who possess knowledge about financial statements and cost structures and cash flow management and credit conditions will produce trustworthy financial documents and handle their debts properly and secure superior financing deals. Evidence from Indonesian SMEs indicates that financial literacy improvements lead to better financing options which drive business expansion and operational enhancement according to Tiaskara and Suryani (2025). Financial literacy enables people to access financial services whereas it promotes responsible financial management practices. Business owners and managers who have financial literacy skills will choose their investments based on risk awareness while they conduct cash-flow forecasting and cost control and systematic budgeting activities. The procedures establish a framework that permits organizations to grow sustainably while maintaining operations and minimizing financial errors and coping with economic disturbances according to Rehman (2025).

The existing research studies about financial literacy and entrepreneurial success have identified various critical research gaps which need to be addressed particularly within developing countries such as Nepal. Prior research demonstrated that financial literacy enables better entrepreneurial choices which lead to increased business profits and enhanced sustainability while business success depends on human capital development and managerial skills (Atkinson & Messy, 2012; Fatoki, 2014; Lusardi & Mitchell, 2014; Wise, 2013). The majority of research studies demonstrate general financial literacy yet they fail to study particular financial abilities which include financial planning and financing decisions and investment decisions and liquidity management and risk management and digital financial capacity (Bhandari & Subedi, 2024; Ranabhat, 2023; Thapa & Nepal, 2015).

The absence of structured financial education programs and entrepreneurship training programs in Nepal which extends beyond major urban areas causes small and medium enterprises to experience decreased ability to handle challenges and grow their businesses (Khanal, 2025). Business owners in Lekhnath Kaski District struggle to conduct investment research and create financial plans and manage digital financial solutions because the area functions as a developing commercial center which supports its trade and service operations and small manufacturing activities. The empirical studies which investigate the Nepalese entrepreneurial system face major limitations because Nepal possesses distinct institutional and behavioral characteristics that affect its entrepreneurial ecosystem (Chalise et al., 2025; GEM, 2020). Financial literacy demonstrates a strong impact on company performance together with financial access and sustainable practices according to multiple research studies which establish this connection (Lusardi & Mitchell, 2014; Ye & Kulathunga, 2019). Research about this connection has not been conducted in Nepal's sub-metropolitan areas. The study delivers regional empirical data while providing practical support for business owners and creating policy recommendations which government bodies and financial organizations can use to develop specific financial literacy programs that support sustainable development for small and medium enterprises. The

study aims to determine how financial knowledge affects the business sustainability of small and medium enterprises in Lekhnath Kaski Nepal.

## Literature Review

### *Theoretical Review*

The Resource-Based View (RBV) theory demonstrates that companies achieve long-term success through their valuable internal resources which competitors cannot duplicate. The financial literacy of owner-managers serves as an important nonphysical asset according to this perspective. The ability to evaluate investments and handle cash flow and interpret financial statements and measure risks enables organizations to distribute resources and run their operations more efficiently. These abilities become accessible to competitors only through educational programs and practical experience. Financial literacy, therefore, increases resilience together with competitiveness and protects the long-term success of businesses according to Barney (1991).

Human capital theory defines an individual's educational background and knowledge base as their work skills which together with their existing skills determine their value to an organization. Business owners and managers treat their financial management skills as essential human capital which they possess. Financially literate managers can assess financial information while they make decisions about debt management and investment evaluation. Financial literacy empowers managers to make better financial choices which leads to sustainable business growth and organizational stability according to Becker (1964).

According to knowledge-based theory organizations consider knowledge as their most valuable asset because it emerges from their shared practices and structural frameworks together with employee knowledge. This makes it hard for rivals to copy and is essential for sustained success. The theory states that organizations which possess extensive knowledge assets and know how to use those assets will achieve superior performance results (Grant, 1996).

### *Empirical Review*

#### **Financial Planning Capacity (FPC) and Business Sustainability**

Financial planning functions as a systematic method which requires businesses to project their income and their future costs while establishing their financial objectives for extended time periods which will help them achieve sustainable operations. The system enables organizations to distribute their assets correctly while ensuring they possess adequate emergency funds to handle unanticipated situations (Samiun et al., 2024). The study results indicate that small and medium-sized enterprises which implement detailed financial planning procedures will achieve better business continuity and effective risk management and operational stability during economic downturns (Gudkova & Ermakova, 2020). Financial literacy enables people to manage their debt better and plan their long-term financial goals which helps create sustainable economic development according to Lusardi and Tufano 2015. The study demonstrates that financial planning capabilities should become an essential part of all small and medium-sized enterprises to support their business development and operational sustainability efforts.

*H<sub>1</sub>: There is a significant positive effect of the financial planning capacity of entrepreneurs on business sustainability.*

#### **Financing Decision Capacity (FDC) and Business Sustainability**

Financial literacy equips people with the information and skills to effectively manage their finances and make sound financial decisions (Gomes, 2025). Corsini and Giannelli (2021) state that financial literacy, the capacity to fully understand and manage finances, is crucial for long-term financial success, particularly in today's complex financial landscape. It assists people in making well-informed decisions on investments and savings. Moreover, Mariana et al. (2025) state that MSME entrepreneurs with adequate financial literacy can make strategic decisions that promote the sustainable growth and improvement of their companies. This hypothesis is proposed based on the above statements:

*H<sub>2</sub>: There is a significant positive impact of the financing decision capacity of entrepreneurs on business sustainability.*

#### **Investment decision capacity (IDC) and business sustainability**

Financial literacy serves as a global passport, enabling individuals to make informed financial decisions and take advantage of the financial products available in the market (Lusardi, 2019). Humans with high financial literacy are

also better able to understand the state of the economy, evaluate their financial status sensibly, and experience less stress and anxiety regarding financial matters (Marzieh et al., 2013). Financial literacy supports sustainable investment decisions and economic stability, as financially knowledgeable individuals are more likely to plan effectively and invest in line with ESG principles (Senaya, 2024). This hypothesis is based on the above statements:

*H<sub>3</sub>: There is a significant positive effect of the investment decision capacity of entrepreneurs on business sustainability.*

#### **Liquidity Management Capacity (LMC) and business sustainability**

Strong financial literacy, effective liquidity management, and sufficient business capital provide MSMEs with a solid foundation to build competitiveness and achieve long-term business sustainability (Alvaro et al., 2025). Businesses must manage their cash flow effectively to preserve liquidity, ensure financial stability, and sustain operations. It is an essential part of how a business functions, assessing a company's ability to fulfill its financial obligations, look for expansion, and adjust to changing market conditions (Kumar, 2024). Financial literacy, hence, plays a significant role in business growth and sustainability.

*H<sub>4</sub>: There is a significant positive impact of the liquidity management capacity of entrepreneurs on business sustainability.*

#### **Risk Management Capacity (RMC) and Business Sustainability**

Risk management is crucial to preserving a business's viability, as SMEs are typically more susceptible to uncertainty than larger enterprises. To reduce the impact of potential risks on corporate operations, strategies must be implemented after they have been identified and their potential impact assessed (Samiun et al., 2024). Thus, financial literacy assists entrepreneurs in managing risks by implementing strategies such as diversifying investments, accumulating cash reserves, and securing appropriate insurance coverage (Ye & Kulathunga, 2019). Financial literacy among entrepreneurs enables them to implement efficient financial management techniques for their businesses (Gathungu & Sabana, 2018). This statement supports the following hypothesis:

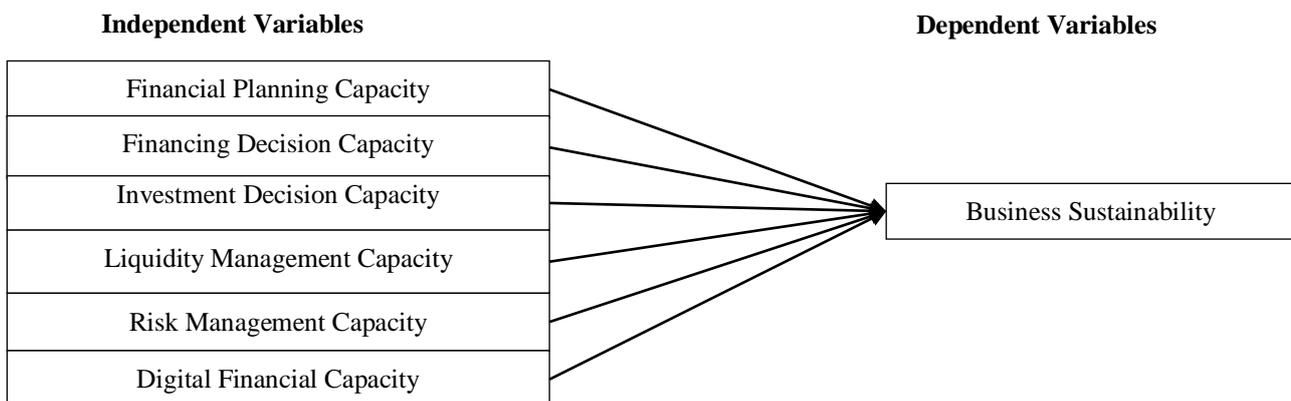
*H<sub>5</sub>: There is a significant positive effect of the risk management capacity of entrepreneurs on business sustainability.*

#### **Digital Financial Capacity (DFC) and business sustainability**

Digital financial capabilities are crucial for fostering sustainable entrepreneurship, particularly by promoting well-informed decision-making and bolstering long-term sustainability goals. More generally, it is acknowledged that robust digital financial capacity is a critical component in promoting sustainable entrepreneurial growth in a range of economic environments (Urooj et al., 2025). Hence, digital financial literacy positively influences sustainable performance, as greater use of FinTech applications enhances financial knowledge, strengthens security awareness, and supports more informed decision-making in digital financial transactions (Amnas et al., 2024). This statement supports the following hypothesis:

*H<sub>6</sub>: There is a significant positive impact of the digital financial capacity of entrepreneurs on business sustainability.*

Based on the above literature, the following conceptual framework is developed to investigate the effect of financial literacy on entrepreneurs' business sustainability.



**Figure 1: Conceptual framework of the study**

## Research Methods

This study employs a descriptive and analytical research design, using quantitative methodologies, to examine the influence of financial literacy on Business sustainability in Lekhnath, Kaski, Nepal. The primary survey was conducted using a structured questionnaire based on established dimensions of financial literacy. As per the Federation of Nepalese Chambers of Commerce & Industry (FNCCI), which was established on 4 July 1997 to support local economic development and strengthen commercial activities, the population for this study is 2019 (aged 31 to 50 years). The sample size of 204 has been determined to be appropriate using Yamane Taro's (1967) formula with a 95% confidence interval and a 7% margin of error. A stratified sampling technique was used to ensure the representativeness of entrepreneurs across Lekhnath.

Data was collected through two methods which achieved both higher response rates and better quality data. Online data collection through Google Forms allowed entrepreneurs to complete the questionnaire who had digital access to the shared link. Face-to-face interaction used printed questionnaires which were given to entrepreneurs who wanted to complete the survey in-person or who had trouble using digital tools. The questionnaire primarily uses five-point Likert items which measure financial literacy factors and business sustainability through responses that range from "strongly disagree" to "strongly agree".

The data analysis used SPSS to perform three types of analysis which included descriptive analysis and correlational analysis and regression analysis. The researchers assessed construct reliability through Cronbach's alpha which showed acceptable results when it exceeded 0.70. The researchers developed questionnaire items through content validation which used established empirical research and internationally recognized frameworks. The experts verified instrument clarity and relevance through pilot testing before the researchers began their final data collection.

## Results and Discussion

### *Demographic Condition*

The demographic characteristics of respondents include age group, gender, academic level, business nature, business legal status, number of people engaged in business, business establishment duration, bank account experience, digital literacy, digital payment experience, financial literacy training, total investment, business loan, and average net revenue. Table 1 exhibits the demographic condition of the respondents.

**Table 1: Demographic condition of respondents**

<b>Respondent's Details</b>	<b>Responses</b>	<b>Percent</b>
<b>Gender</b>		
Male	131	64.2
Female	73	35.8
<b>Age Group</b>		
21 to 30 years	58	28.4
31 to 40 years	49	24.0
41 to 50 years	70	34.3
Above 50 years	27	13.2
<b>Education</b>		
Below 10 grades	21	10.3
10 to + 2	56	27.5
Bachelor's Degree	68	33.33
Above Bachelor	59	28.9
<b>Business Nature</b>		
Retail/Wholesale (Trading)	85	41.7
Hotel/Restaurant	51	25.0
Manufacturing	4	2.0
Construction/Hardware	15	7.4
Agriculture/Livestock	12	5.9
Others	37	18.0
<b>Business Legal Status</b>		
Sole proprietorship	179	87.7
Partnership	22	10.8
Joint venture	3	1.5
<b>People Engaged in Business</b>		
Below 3 persons	94	46.1
4 to 5 persons	48	23.5

6 to 10 persons	43	21.1
Above 10 persons	19	9.3
<b>Business establishment duration</b>		
3 to 5 years	101	49.5
6 to 10 years	67	32.8
Above 10 years	36	17.6
<b>Bank Account Experience</b>		
Last 5 years	146	71.6
6 to 10 years	34	16.7
More than 10 years	24	11.8
<b>Digital Literacy</b>		
Yes	186	91.2
No	18	8.8
<b>Digital payment Experience Years</b>		
1-3 years	120	58.6
3-5 years	50	24.6
5-7 years	24	11.8
More than 7 years	10	4.9
<b>Financial literacy Training</b>		
Yes	109	53.4
No	95	46.6
<b>Total Investment</b>		
Below 10 Lakh	47	23.0
10 Lakh to 20 Lakh	73	35.8
20 Lakh to 30 Lakh	28	13.7
30 Lakh to 40 Lakh	20	9.8
40 Lakh to 50 Lakh	6	2.9
Above 50 Lakh	30	14.7
<b>Business Loan</b>		
Below 5 Lakh	36	17.6
5 Lakh to 10 Lakh	93	45.6
10 Lakh to 15 Lakh	37	18.1
15 Lakh to 20 Lakh	5	2.5
20 Lakh to 25 Lakh	5	2.5
Above 25 Lakh	28	13.7
<b>Average Net Revenue</b>		
Below 5 Lakh	43	21.1
5 Lakh to 10 Lakh	95	46.6
10 Lakh to 15 Lakh	15	7.4
15 Lakh to 20 Lakh	31	15.2
20 Lakh to 25 Lakh	8	3.9
Above 25 Lakh	12	5.9
<b>Total</b>	<b>204</b>	<b>100.0</b>

*Note. Calculation based on field survey, 2025.*

### **Descriptive Status**

Descriptive statistics have been used to measure perceived financial literacy and business sustainability dimensions using a five-point Likert scale.

### **Financial literacy factors affecting entrepreneurial success**

Financial literacy affects entrepreneurial success through interrelated factors that shape how entrepreneurs plan, decide, and manage their businesses. Key financial literacy factors are presented in Table 2.

**Table 2: Financial literacy factors affecting entrepreneurial success**

<b>Financial Literacy Factors</b>	<b>Responses</b>	<b>Percentage</b>
Financial Planning Capacity	140	68.6
Financing Decision Capacity	14	6.9
Investment Decision Capacity	13	6.4
Liquidity Management Capacity	16	7.8
Risk Management Capacity	13	6.4
Digital Financial Literacy	8	3.9
<b>Total</b>	<b>204</b>	<b>100.0</b>

*Note. Calculation based on field survey, 2025*

Table 2 shows that financial planning capacity is the key financial literacy factors affecting entrepreneurial success. Financial planning capacity (68.6%) is the most significant factor, and digital financial literacy (3.9%) is the lowest-affected factor among respondents. It shows that other factors, such as liquidity management, financing decisions, investment decisions, risk management, and digital literacy, play supportive roles but have comparatively less influence, whereas effective financial planning is the most influential factor for entrepreneurial success.

### Financial Planning Capacity

Financial planning capacity refers to an entrepreneur's ability to budget, forecast, and allocate resources to achieve business goals, ensuring efficient financial management for both short-term operations and long-term growth. Table 3 depicts entrepreneurs' perceived financial planning capacity.

**Table 3: Perceived financial planning capacity**

Codes	FPC Factors	Mean	Standard Deviation	Perception
FPC1	An effective financial plan has played a significant role in the profitability of my business.	3.81	.677	High
FPC2	My business experienced steady growth due to an effective financial plan.	3.72	.761	High
FPC3	Financial planning has been critical to the sustainability of my business.	3.80	.730	High
FPC4	I frequently review my financial plan to ensure the best decisions for the growth of my business.	3.65	.777	Low
FPC5	My financial plan allows me to invest in new opportunities, which helps keep my business innovative and competitive.	3.55	.832	Low
<b>Average</b>		<b>3.706</b>		

*Note. Calculation based on field survey, 2025.*

The results show that entrepreneurs view FPC as an essential element which determines their business success because they achieved their highest profitability results at a mean score of 3.81. The research by Medon and Oduleye (2023) shows that companies which plan their financial activities well will achieve ongoing profit success in changing market conditions.

### Financing Decision Capacity

Entrepreneurs demonstrate their financing decision capacity through their ability to select and handle appropriate funding sources which include loans and investments and grants as they pursue their business goals while achieving financial stability and expansion. The entrepreneurs established their financial decision-making capacity through Table 4 which displays their results.

**Table 4: Perceived financing decision capacity**

Codes	FDC Factors	Mean	Standard Deviation	Perception
FDC1	Financing decision capacity helped me to make business profitable.	3.73	.825	High
FDC2	Strategic financing decisions enhanced my business and career.	3.70	.779	Low
FDC3	My financing decisions focus on long-term sustainability over short-term gains.	3.82	.659	High
FDC4	I am confident in my ability to raise funds when needed to support my business goals.	3.84	.733	High
FDC5	I carefully analyze the financial risks associated with financing strategies to ensure the sustainability of my business.	3.63	.786	Low
<b>Average</b>		<b>3.74</b>		

*Note. Calculation based on field survey, 2025.*

The results indicate that entrepreneurs view FDC as crucial for business sustainability, with the highest mean confidence score in raising funds (Mean = 3.84). This supports the study by Ekpo et al. (2017), which states that funds play a critical role in sustaining a business by increasing operational effectiveness and ensuring the efficient distribution of funds across the company's internal and external operations.

### Investment Decision Capacity

Investment decision capacity is an entrepreneur's ability to identify and manage investment opportunities that enhance business growth by weighing risks and potential returns to make choices that support long-term success and competitiveness. Table 5 depicts the capacity for investment decisions.

**Table 5: Investment decision capacity**

Codes	IDC factors	Mean	Standard Deviation	Perception
<b>IDC1</b>	My ability to make informed investment decision has gone a long way in making my business more profitable.	3.74	.781	High
<b>IDC2</b>	I commonly look for investment opportunities to maximize returns and increase the profitability of my business	3.74	.774	High
<b>IDC3</b>	My investment decisions have played a significant role in the growth and expansion of my business.	3.74	.706	High
<b>IDC4</b>	My investment decisions require careful risk analysis to ensure the long-term sustainability of my business.	3.83	.682	High
<b>IDC5</b>	I tend to invest in new businesses or technologies that help make my business more competitive in the marketplace.	3.52	.873	Low
<b>Average</b>		<b>3.714</b>		

*Note. Calculation based on field survey, 2025.*

The results indicate that entrepreneurs view investment decision capacity as crucial for business sustainability, with the highest mean score for careful risk analysis for long-term sustainability (Mean = 3.83). This supports the study by Samiun et al. (2024), which concludes that SMEs are more likely to achieve long-term sustainability if they engage in careful financial planning, integrate sustainable investment decisions, and implement effective risk management.

### Liquidity Management Capacity

An entrepreneur's liquidity management capacity enables him to maintain enough cash flow for meeting his short-term financial commitments while running his business operations without disruption and minimizing his chances of experiencing financial problems. The liquidity management capacity of the business is shown in Table 6.

**Table 6: Liquidity management capacity**

Codes	LMC Factors	Mean	Standard Deviation	Perception
<b>LMC1</b>	My ability to manage liquidity effectively has helped make my business profitable.	3.83	.717	High
<b>LMC2</b>	Maintaining liquidity has become essential to sustaining my business's growth.	3.79	.727	High
<b>LMC3</b>	I regularly review liquidity ratios to guide my financial decisions and to manage the business more effectively.	3.69	.756	Low
<b>LMC4</b>	My liquidity practices have allowed me to capture growth opportunities as they arise	3.64	.732	Low
<b>LMC5</b>	I make sure my business has optimum liquidity to cover short-term obligations and maintain the sustainability of the business.	3.81	.714	High
<b>Average</b>		<b>3.75</b>		

*Note. Calculation based on field survey, 2025.*

The results show that entrepreneurs view Liquidity management capacity as vital for their businesses because it helps them achieve profitability and business expansion, which they demonstrated through their highest scores on effective liquidity management which reached a mean value of 3.83. The study by Gumede and Takawira (2025) found that effective liquidity management together with accurate record-keeping and proper budgeting serves as the vital elements needed for businesses to achieve sustainable growth and operational success.

### Risk Management Capacity

Risk management capacity defines how entrepreneurs can protect their businesses through three processes which include identifying all possible financial and operational risks and evaluating their impact and developing strategies to handle those threats. Table 7 displays the capacity for managing risks which businesses possess.

**Table 7: Risk management capacity**

Codes	RMC Factors	Mean	Standard deviation	Perception
<b>RMC1</b>	My ability to identify and manage financial risk has made my business profitable.	3.76	.685	High
<b>RMC2</b>	I usually analyze possible financial risks to mitigate losses and protect business profitability.	3.73	.745	High
<b>RMC3</b>	Using risk management has sustained my business in the long run.	3.68	.717	Low
<b>RMC4</b>	I often use risk management tools (eg. Financial forecasting, risk analysis) to make rational business decisions	3.63	.812	Low
<b>RMC5</b>	Managing risk allows me to invest in new projects while minimizing potential investment hurdles.	3.69	.736	Low
<b>Average</b>		<b>3.7</b>		

*Note. Calculation based on field survey, 2025.*

The results indicate that entrepreneurs perceive Risk management capacity as important for profitability and long-term business sustainability, with the highest mean scores for identifying and managing financial risks (Mean = 3.76). This supports the study by Schulte and Hallstedt (2018), which contends that prudent risk management is the primary motivator of sustainability commitment.

### Digital Financial Capacity

Digital financial capacity is an entrepreneur's skill in using digital tools and technologies to manage finances, including online banking, digital payments, and financial software, which helps streamline financial operations, supports better decision-making, and strengthens business performance in a digital environment. Table 8 represents digital financial capacity.

**Table 8: Digital financial capacity**

Codes	DFC Factors	Mean	Standard Deviation	Perception
<b>DFC1</b>	The ability to use digital financial tools (e.g. accounting software, digital payment systems) has improved the profitability of my business.	3.68	.752	High
<b>DFC2</b>	Growth and expansion of my business is possible using digital finance tools.	3.82	.724	High
<b>DFC3</b>	Digital finance tools help me manage cash flow and ensure the long-term sustainability of my business.	3.75	.694	High
<b>DFC4</b>	I depend on digital financial technology to make business decisions.	3.58	.818	Low
<b>DFC5</b>	I can invest in new businesses at competitive markets due to access of digital resources.	3.67	.779	Low
<b>Average</b>		<b>3.7</b>		

*Note. Calculation based on field survey, 2025.*

The results show that entrepreneurs recognize digital financial capacity as important for profitability, growth, and sustainability, with the highest mean scores for using digital tools to support business expansion (Mean = 3.82). This finding is consistent with Zaitsev (2023), who found that businesses can increase their competitiveness and expand their market reach by establishing trade platforms, implementing effective digital management systems, creating an online presence, and automating activities.

### Business Sustainability

Business sustainability defines the capacity of a business to maintain operations during an extended period through its financial stability and sustainable practices and its efficient resource management. The framework requires organizations to adapt their operations according to market conditions while they maintain their responsibility for economic and social and environmental aspects. Table 9 presents information on business sustainability.

**Table 9: Business sustainability**

Codes	BS Factors	Mean	Standard Deviation	Perception
BS1	My ability to manage financial plans has directly benefited my business.	3.79	.651	Low
BS2	My financing decisions (e.g., choosing debt, equity, or other instruments) have positively impacted my business's growth.	3.84	.691	High
BS3	My ability to make investment decisions has helped to make my business profitable.	3.75	.729	Low
BS4	The ability to manage liquidity has made my business financially viable and profitable.	3.86	.681	High
BS5	My ability to manage financial risk has contributed greatly to the success and profitability of my business.	3.89	.679	High
BS6	Using digital finance tools (e.g., accounting software, digital payments) has improved my business's profitability.	3.79	.756	Low
BS7	Financial literacy has played a significant role in the success of my business.	3.90	.732	High
<b>Average</b>		<b>3.83</b>		

*Note. Calculation based on field survey, 2025.*

The descriptive statistics indicate a positive perception of business sustainability among respondents, with mean values ranging from 3.75 to 3.90 on a five-point scale. The highest mean score (3.90) reflects strong agreement that financial literacy plays a significant role in business success. This finding is consistent with the study by Usama and Yusoff (2019) and Chepkemoi et al. (2017), which found that financial literacy has a statistically significant impact on SME's performance and improves profitability.

### ***Inferential Analysis***

Correlation and regression methods were applied to conclude business sustainability. The connection between the dependent variable, i.e., business sustainability, and independent variables such as financial planning capacity, financing decision capacity, investment decision capacity, liquidity management capacity, risk management capacity, and digital financial literacy, has been presented in Table 10.

**Table 10: Correlation matrix**

Variable	FPC	FDC	IDC	LMC	RMC	DFC	BS
FPC	1						
FDC	0.732**	1					
IDC	0.768**	0.801**	1				
LMC	0.76**	0.793**	0.819**	1			
RMC	0.745**	0.792**	0.84**	0.841**	1		
DFC	0.612**	0.648**	0.708**	0.672**	0.768**	1	
BS	0.666**	0.731**	0.77**	0.711**	0.742**	0.697**	1

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

*Note. Based on data analysis using SPSS.*

Table 10 shows that SME's business sustainability is positively connected with financial literacy factors. Investment decision capacity has the highest value of 0.770, so it most strongly affects business sustainability. Risk management capacity has a value of 0.742, indicating a strong positive relationship with business sustainability. The financing decision and liquidity management capacities have values of 0.731 and 0.711, respectively, indicating a positive relationship. Similarly, digital financial literacy and financial planning capacity have values of 0.697 and 0.666, respectively, indicating a positive link. All these results are significant at the 0.01 level, which means they are strong and reliable. This shows that sound investment decisions, risk management, financing decisions, liquidity management, digital literacy, and financial planning are influenced by financial literacy, which improves SME's business sustainability.

The regression results were estimated using financial planning capacity, financing decision capacity, investment decision capacity, liquidity management capacity, risk management capacity, and digital financial literacy as

independent variables, with SME business sustainability as the dependent variable. The regression analysis of SME's business sustainability is presented in Table 11.

**Table 11: Regression analysis**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics VIF
		B	Std. Error	Beta			
1	(Constant)	.727	.163		4.464	.000	
	FPC	.051	.066	.054	.771	.441	2.927
	FDC	.197	.071	.215	2.767	.006	3.574
	IDC	.282	.082	.308	3.435	.001	4.751
	LMC	.034	.079	.038	.432	.666	4.536
	RMC	.053	.088	.059	.606	.545	5.578
	DFC	.219	.061	.236	3.605	.000	2.525

*Dependent variable: BS*

*Predictors: (Constant), FPC, FDC, IDC, LMC, RMC, and DFL*

*Note. Based on the data analysis using SPSS.*

The coefficient results indicate that FDC, IDC, and DFC have statistically significant positive effects on business sustainability, as indicated by p-values below 0.05. In contrast, FPC, LMC, and RMC do not show a significant effect when other variables are included, even though they may still collectively contribute to the model.

The hypothesis was tested using the coefficient table above, which includes the independent variables as predictors. The summary of the hypothesis testing has been listed in Table 12.

**Table 12: Summary of hypothesis testing**

Hypotheses	P-Value	Decision
H1	0.441	P > 0.05 (Rejected)
H2	0.006	P < 0.05 (Accepted)
H3	0.001	P < 0.05 (Accepted)
H4	0.666	P > 0.05 (Rejected)
H5	0.545	P > 0.05 (Rejected)
H6	0.000	P < 0.05 (Accepted)

*Note. Based on the authors' calculation.*

Table 12 shows that digital financial literacy has the most substantial positive impact (beta = 0.219, p = 0.00) on SMEs' business sustainability. Investment decision capacity also has a positive and substantial effect (with a beta of 0.282 and significance of 0.01). Likewise, financing decision capacity has a positive and significant effect (with a beta of 0.197 and significance of 0.06) on SME's business sustainability. Digital financial literacy, investment decision-making capacity, and financial decision-making capacity mainly affect SME business sustainability, while other factors, such as financial planning capacity, risk management capacity, and liquidity management capacity, have a lesser or negligible effect. The collinearity statistics indicate acceptable levels of multicollinearity among the variables, confirming the validity of the regression results. This result supports the prior studies by Senaya (2024) and Mazzoli and Baiocco (2025), which found that higher financial literacy promotes financial planning, supports sustainable investments, and enhances decision-making, while digital financial literacy enables investors to more easily access and use financial and sustainability information.

Financial literacy is the knowledge and ability to use financial concepts effectively and efficiently in decision-making to achieve desired outcomes. It functions as a worldwide passport, empowering people to make wise choices and use the range of financial products available (Lusardi, 2019). According to Praksah and Hawaldar (2024), a lack of financial literacy leads to poor financial decisions, excessive credit spending, dependence on borrowing, and reduced savings. Financially literate people are better able to make long-term (retirement planning) and short-term

(emergencies, healthcare, etc.) plans. This supports prior studies by Khanal (2025), Lusardi and Mitchell (2014), and OECD (2018), which emphasizes that financial literacy improves decision-making, reduces financial vulnerability, and enhances long-term business continuity. Financial literacy helps to expand financial inclusion and other intervention approaches (Dhungana, 2022).

Financing decision capacity has a significant positive influence on business sustainability, as appropriate funding choices support business stability (Khattab et al., 2017; Saghaian et al., 2022; and Chand and Katuwal, 2025). Investment decision capacity is the strongest predictor of business sustainability because strategic investment decisions promote long-term growth (Khanal, 2025). Digital financial capacity significantly enhances business sustainability by improving efficiency through digital financial tools (OECD, 2019; Rukmiyati et al., 2023). Financial planning shows no significant independent effect, indicating that its impact may be indirect (Khanal, 2025). Liquidity management does not show a significant direct impact on sustainability but supports daily operational stability (Heryanto & Leng, 2022). Risk management also shows no significant direct effect, suggesting that its influence on sustainability may be indirect (Masdupi et al., 2024; Khanal, 2025). Government policy strengthens regulatory institutions to shape inclusive financial environment by expanding financial inclusion and literacy in the nation (Dhungana & Kumar, 2015).

## Conclusion and Policy Implications

Financial literacy was assessed through six dimensions: financial planning, financing decisions, investment decisions, liquidity management, risk management, and digital financial capacity. The findings indicate that entrepreneurs generally possess moderate to high financial literacy. The results show a positive relationship between financial literacy and business sustainability, with financing decision capacity, investment decision capacity, and digital financial capacity having a statistically significant positive impact. The research found that investment decision capacity functions as the most powerful element which enables businesses to achieve success during extended periods. The study concludes that financial literacy, especially strategic financial decision-making and digital financial competence, serves as a crucial element which strengthens SME sustainability in Nepal. The findings support human capital theory because they show that financial knowledge helps entrepreneurs make better decisions and use their resources more effectively.

The study establishes that entrepreneurs need to develop their investment and digital financial skills while financial institutions and government agencies must create special financial literacy initiatives and enhance digital financial service accessibility and establish financial capability development as a core component of SME support policies to achieve sustainable business expansion. Future research can extend this study by examining financial literacy and business sustainability in other regions of Nepal to improve generalizability. It may also use qualitative approaches to better understand entrepreneurs' financial decision-making. Additionally, future studies could explore factors such as financial inclusion, access to credit, and technological adoption that may influence the relationship between financial literacy and SME sustainability.

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*Data will be available on request to the corresponding author.*

### **Authors' contributions**

**Upasana Kandel:** *Data collection, data analysis, validation, and original draft preparation.*

**Bharat Ram Dhungana:** *Conceptualization, research design, draft review, supervision, and project administration.*

**Dipika Sunar Budhathoki:** *Literature review, research design, and original draft preparation.*

**Chet Narayan Subedi:** *Resources, data analysis, and validation.*

**Tara Nath Acharya:** *Literature review and original draft preparation. All authors have approved the final manuscript before submission.*

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