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"EFFECTIVENESS OF DIGITAL PAYMENT SYSTEM IN SMALL SCALE BUSINESSES WITH SPECIAL REFERANCE TO SHIVAMOGGA DISTRICT"

*Author-1: Mrs. Anitha M	*Author-2: Mr.Tukaram Moorteppa Lamani	*Author-3: Mrs. Sakamma S.
Faculty Member, Department of PG Studies and Research in Commerce, Kuvempu University, Jnana Sahyadri Shankaraghatta – Shivamogga Dist – Karnataka - 577451	Faculty Member, Department of PG Studies and Research in Commerce. Kuvempu University, Jnana Sahyadri Shankaraghatta – Shivamogga Dist – Karnataka - 577451	Faculty Member, Department of PG Studies and Research in Tourism Administration. Kuvempu University, Jnana Sahyadri Shankaraghatta – Shivamogga Dist – Karnataka - 577451

Abstract :-

Digital payment systems have become an essential part of modern business operations, especially for small scale businesses. The research focuses on understanding the level of awareness, adoption, and usage of digital payment systems such as UPI, mobile wallets, debit cards, and internet banking among small scale business owners. The study also examines how digital payments influence business performance in terms of sales growth, customer convenience, accounting accuracy, and operational efficiency. Primary data were collected from small scale business owners in Shivamaggoa district using a structured questionnaire, while secondary data were gathered from journals, reports, and websites. Simple percentage analysis and tables were used for data interpretation. The findings reveal that digital payments have significantly improved transaction speed, reduced cash handling risks, and enhanced customer satisfaction. However, challenges such as security concerns, technical issues, and lack of digital literacy still affect full adoption. The study concludes that digital payments play a crucial role in strengthening small scale businesses and suggests the need for proper training, awareness programs, and improved digital infrastructure to maximize their benefits. The adoption of these systems helps small businesses improve financial management, reduce operational costs, and increase sales opportunities. However, small business owners may also face challenges such as cybersecurity threats, technological barriers, and transaction fees. Overall, digital payment systems play a significant role in enhancing the efficiency growth, and competitiveness of small businesses in the digital economy.

Keywords :- Digital payment, UPI Mobile Wallets, Digital Literacy, Modern Business, Cybersecurity threats, Digital Economy.

Introduction :-

Digital payment systems have revolutionized small-scale businesses by boosting revenue, reducing transaction costs, and enhancing financial tracking, with 58% of businesses reporting positive sales impacts. Evolution from early, complex POS systems to accessible, instant, QR-based systems (like UPI) has accelerated adoption, offering increased security and customer convenience. The Indian government has been advancing and engendering on the web installments forcefully, beginning with demonetization back in 2016. 'Digital India' had been the controlling power of numerous monetary and monetary choices that pushed Indians to change to online installments. the case of India is particularly interesting. India's economy remains mostly cash-based despite the existence of various types of digital payments. The Government of India has recently made substantial efforts to reduce the use of cash. Some notable efforts include, the November 2016 demonetization of the 500 and 1,000 Rupee bank notes; the creation of India Stack (a collection of APIs which leverage the Aadhaar bio-metrically-verified identification program to make digital transactions cheaper and more efficient); and a large-scale incentive program between April 2017 and July 2018 (in which the Government of India offered small monetary incentives to merchants for accepting payments through a government-supported digital payment system called Unified Payments Interface or UPI from their customers, and to consumers for referring new UPI users).

Review of Literature :-

Sunil Jagannath Ghadge, (2026): This review synthesizes empirical research on the evolution, adoption, and impact of digital payment systems in India. It highlights the roles of technological innovation, government policy, finch, and COVID-19 in accelerating adoption. Addressing consumer perceptions, challenges, and emerging trends like UPI and CBDCs, the study underscores digital payments' significance for financial inclusion, economic efficiency, and sustainable development.

Dr. S. Samundeeswari, M. D. Kaviya (2025): This study explains that Digital payment systems have become an essential tool for small businesses by improving efficiency, security, and decision-making capabilities. Technologies such as mobile wallets, online banking, and card transactions allow businesses to process payments quickly while reducing reliance on cash handling. These systems also generate valuable data, enabling small business owners to track transactions in real time and gain insights into customer behaviour. Such information supports better financial planning, targeted marketing strategies, and enhanced customer experiences. Additionally, digital payments improve convenience for customers, which can increase satisfaction and loyalty. Despite challenges such as transaction fees, cybersecurity risks, and the need for reliable digital infrastructure, the overall impact of digital payment systems is largely positive. When effectively implemented, these systems help small businesses remain competitive, scalable, and adaptable in an increasingly digital economy. Embracing digital payment solutions is therefore a strategic step toward long-term business growth and sustainability.

R. M. Shelly, et. al. (2024): The study offers useful regional insights into customer perceptions of electronic payment systems in Thiruvananthapuram. It effectively identifies adoption drivers and key challenges such as security concerns and transaction failures. However, greater methodological detail and stronger analytical depth would enhance its academic rigor and strengthen the applicability of its policy recommendations.

Dr. Lokesh G. R. (2023): This study examines the effect and adoption of electronic payment systems among small businesses in Bengaluru, addressing a relevant gap between large enterprises and SMEs. The abstract highlights key factors influencing adoption, such as ease of use, security, convenience, awareness, and flexibility, which are well aligned with existing digital payment literature. The use of a survey design targeting 300 small businesses provides a reasonable basis for analysis. However, the abstract would benefit from clearer organization, improved grammar, and consistency in terminology. Additionally, briefly mentioning the analytical methods used would strengthen methodological clarity. Overall, the study offers useful insights into the determinants of electronic payment adoption among small businesses in an emerging urban economy.

Shradhanjali Panda, et.al. (2022): This study offers a valuable empirical examination of digital payment awareness among street vendors in India, focusing on tier-2 cities in Odisha. By targeting a financially excluded segment, the research addresses an important and under-explored area within the digital banking literature. The use of both primary and secondary data, along with mixed data collection methods, strengthens the robustness of the study. Employing diverse statistical techniques such as PCA, ANOVA, and regression enhances analytical depth. The findings clearly establish a strong relationship between digital payment awareness and business performance. However, the abstract could be improved by briefly summarizing key results numerically. Overall, the study provides meaningful insights with strong managerial and policy implications.

Research Gap:

On reviewing the existing literature, it appears that the different studies on digital payment system in small scale businesses provides a information regarding technology soft POS adoption in small retails evaluation of potential of tap on mobile (soft POS) technology to make digital payments more affordable for micro enterprises comparing to traditional POS machines and also need to focus on real time cash flow impact. Research needed on how to bridge the gap for digitally poor citizens who are left behind due to poor internet infrastructure language barriers lack of technical skills also study needs tax scrutiny and data privacy breaches limits the adoption of official digital payment channels in the unorganized sectors total cost of ownership of digital systems comparing merchant discount rate transaction failures and technical maintenance costs against the benefits of speed and reduced cash handling. While many studies focus on why small businesses adopt DPS there is a gap in understanding the deep rooted psychological or culture reasons for stubborn resistance in certain micro enterprise sectors like street vendors, traditional family run shops despite high smartphone penetrations researching the impact of unreliable internet connectivity on transaction in non-metropolitan areas.as one among the many bricks that will required to brides the gap between research needs and research efforts made so far.

Statement of the Problem:

The rapid growth of digital technology has transformed the business environment across India. Digital payment systems such as Unified Payments Interface (UPI), mobile banking, debit and credit cards, internet banking, QR code payments, and digital wallets have become important tools for business transactions. The Government of India and financial institutions are encouraging small businesses to adopt digital payment methods in order to promote a cashless economy, transparency, speed, and convenience in financial transactions. Small scale businesses play a vital role in the economic development of Shivamogga by generating employment opportunities, supporting local markets, and contributing to regional income. However, many small business owners still depend heavily on cash transactions due to lack of awareness, fear of cyber fraud, inadequate technical knowledge, poor internet connectivity, transaction charges, and resistance to technological change**.**

Need of the Study:

The need for an effectiveness of digital payment systems in small-scale businesses is important to understand how these systems contribute to business growth and development. With the increasing use of digital transactions such as UPI, mobile wallets, and card payments, small businesses are shifting from traditional cash-based methods. Studying their effectiveness helps in analysing whether these systems improve sales, expand customer reach, and increase overall profitability. Another need for this study is to evaluate the efficiency and convenience provided by digital payment systems. These systems reduce the burden of handling cash, minimize errors in transactions, and save time for both business owners and customers. By examining their effectiveness, the study helps in understanding how digital payments streamline daily operations and improve productivity in small businesses also necessary to assess the impact of digital payments on customer satisfaction. In today's fast-paced environment, customers prefer quick, secure, and contactless payment methods. Understanding whether digital payment systems meet these expectations helps businesses enhance customer experience and build long-term relationships. This is also a need to identify the challenges faced by small-scale businesses in adopting digital payments. Issues such as lack of digital literacy, poor internet connectivity, transaction costs, and security concerns can affect usage. The study helps in recognizing these barriers and suggests measures to overcome them, ensuring better adoption. Digital payment systems help maintain accurate records of transactions, which is essential for proper accounting and tax compliance.

Objectives of the Study:

1. To examine the adoption level of digital payment systems among small-scale businesses.
2. To evaluate the impact on business performance, including sales, profitability, and customer base.
3. To analyse the convenience and efficiency of digital payment methods in daily business operations.
4. To identify the challenges and barriers faced by small businesses in adopting and using digital payment systems.
5. To suggest measures and recommendations for improving the use and effectiveness of digital payment systems in small-scale businesses.

Research Methodology:

Sources of Data: In order to meet the objectives of the study, the required data would be collected from the both primary and secondary data sources.

Primary Data: Primary data refers to original, first-hand information collected directly from sources through methods such as structured questionnaire. It is specifically gathered for a particular research purpose providing accurate, relevant, and up to date data tailored to address specific questions within a study.

Secondary Data: Secondary data is information that has been previously collected processed, and published by others, such as reports, books, journals, or online sources. It is used for research purposes without direct contact with original sources, saving time and resources but may require validation for accuracy and relevance.

Sampling:

Sample Size: A total number of 100 respondents selected for the collection of information related to the role digital payment system in small scale business.

i. Sample: The sample of the study includes effectiveness of digital payment system in small scale businesses.

ii. Sample Technique: Simple Random sampling technique is used to collect the necessary information required for the study.

Scope of the Study:

The research focuses on effectiveness of digital payment systems in small-scale businesses. is focus on analysing how various digital modes such as UPI, mobile wallets, debit/credit cards, and QR code-based payments are used in day-to-day business transactions. It covers the extent of adoption among small business owners and examines their awareness, usage patterns, and preferences for different payment methods. The study also evaluates how digital payments influence key aspects of business performance, including sales growth, customer satisfaction, operational efficiency, and financial management.

Effectiveness of digital payment system in small scale businesses –An Analysis:

Data analysis is considered as an important part of the research work. To fulfill the above designated objectives the study was conducted by collection of primary data as well as secondary data. For primary data self-constructed questionnaire are used and for secondary data collected from various sources such as Article, magazines, Research papers, journals and books etc. thus data analysis and interpretation becomes an essential tool. For the survey sample of 100 respondents from choice under simple random sampling method.

Table No 1.1 Business status of Respondents:

Types of Business	No of Respondents	Percentage (%)
Retail Shop	48	48.0
Service Business	20	20.0
Manufacturing	00	00.0
Others	32	32.0
Total	100	100.0

(Source: Primary Data)

The above table indicates business type of respondents, out of 100 respondents 40% of respondents have retail shop, and 20% of respondents business type is service business, and 0% of don’t know about manufacturing business, 32% of respondent’s business types is others. This indicates the majority (48%) of respondents business type is retail shop.

Table No 1.2 Business Operation Status of Respondents:

Years	No of Respondents	Percentage (%)
Less than 1 year	40	40.0
1-5 years	36	36.0
6-10 years	12	12.0
More than 10 years	12	12.0
Total	100	100.0

(Source: Primary Data)

The above table indicates duration of business operation status of respondents. out of 100 respondents, 40% of the respondents operate their business less than 1 year, 36% of respondent's duration business operation 1–5 years. And 12% of respondents operating business 6-10 years. And 12% of respondent's duration business operation is more than 10 years. It indicating the majority (40%) of the respondents operating business less than 1 year.

Table No 1.3 Adoption for Sales Volume of the Respondents:

Adoption Level	No of Respondents	Percentage (%)
Significantly increased	20	20.0
No change	16	16.0
Moderately increased	60	60.0
Decreased	04	04.0
Total	100	100.0

(Source: Primary Data)

The above table indicates the adoption level of digital payment systems among respondents. Out of 100 respondents, 20% of the respondents stated that 60% of the respondents stated that it has moderately increased, 16% of the respondents stated no change, and 4% of the respondents stated that it has decreased. It indicates that the majority (60%) of the respondents reported that the adoption level is moderately increased.

Table No 1.4 Efficiency of your daily business status of the respondents:

Improvement in Efficiency	No of Respondents	Percentage (%)
Significantly improved	36	36.0
No change	04	04.0
Moderately Improved	60	60.0
Reduced efficiency	00	00.0
Total	100	100.0

(Source: Primary Data)

The above table indicates the improvement in efficiency among the respondents. Out of 100 respondents, 36% of the respondents stated that efficiency has significantly improved, 60% of the respondents stated that it has moderately improved, 4% of the respondents stated no change, and none of the respondents reported reduced efficiency. It indicates that the majority (60%) of the respondents stated that efficiency has moderately improved.

Table No 1.5 Recommendation to Other Small Businesses:

Recommendation	No of Respondents	Percentage (%)
NO	00	00.0
No sure	40	40.0
Yes	56	56.0
Definitely Yes	04	04.0
Total	100	100.0

(Source: Primary Data)

The above table indicates the recommendation level of the respondents. Out of 100 respondents, 56% of the respondents stated Yes, 4% of the respondents stated Definitely Yes, 40% of the respondents stated Not sure, and none of the respondents stated No. It indicates that the majority (56%) of the respondents are willing to recommend the system.

Limitations of the study:

- The study is limited only to selected small scale businesses and does mot include large-scale enterprises
- Due to lack of time, access to data has become limited and it was very difficult to complete the project within the speculated time.
- Limited sample size may not fully represent the opinions of all small business owners.
- Some respondents may hesitate to disclose complete financial or transaction –related information.
- The study mainly considers commonly used digital payment applications such as: Google pay, PhonePe, Paytm.

Major Findings of the Study:

1. The majority (48%) of respondents business type is retail shop.

2. The majority of respondents had been operating their businesses for less than one year (40%), showing the presence of many newly established businesses

3. The majority reported that the adoption of digital payments has moderately increased (60%), indicating growing digitalization in business activities

4. The majority stated that business efficiency has moderately improved (60%), indicating better performance and smoother business functioning.

5. The majority (56%) of the respondents are willing to recommend the system.

Suggestions:

1. Awareness programs should target older age groups to increase digital payment adoption.
2. Training can help improve confidence among senior business owners.
3. Women entrepreneurs should be encouraged with special digital finance support programs.
4. This can further strengthen women's participation in digital business activities.
5. Educational institutions should provide practical digital payment training.

6. This will improve financial and technological literacy among business owners.

Conclusion:

The digital payment systems have significantly improved the efficiency and growth of small-scale businesses by providing faster, safer, and more convenient transaction methods. The adoption of digital payments has reduced dependence on cash, improved transparency in financial transactions, and enhanced customer satisfaction through quick and easy payment options. Government initiatives, technological advancements, and the increasing use of smartphones and internet services have further accelerated the acceptance of digital payments among small business owners. At the same time, the study identifies certain challenges such as lack of digital literacy, cybersecurity concerns, internet connectivity issues, and transaction charges, which still affect the smooth implementation of digital payment systems in some areas. Despite these limitations, the overall impact of digital payments on small-scale businesses is positive, as they contribute to better financial management, wider customer reach, increased sales opportunities, and financial inclusion. Therefore, it can be concluded that digital payment systems play an important role in the modernization and sustainable development of small-scale businesses and continuous awareness programs, improved digital infrastructure, and secure payment technologies can further strengthen the effectiveness and adoption of digital payment systems in the future.

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