

Role of Digitalization in the Growth of MSMEs in India: Opportunities and Challenges

Vandita¹, Arun Kumar Jaiswal², Dr. RBL Srivastava²

^{1,2}Research scholar, Department of Commerce, CMP Degree College, University of Allahabad

³Associate Professor, Department of Commerce, CMP Degree College, University of Allahabad

ABSTRACT

Digital technology has enormous potential benefits for the MSME sector in India. The business-focused digital environment has seen a substantial transition recently. A number of new elements have emerged that could help define the limits of a strong digital ecosystem. Problems arise when trying to address the complex and heterogeneous MSME sector, which is dominated by small businesses with varying degrees of digital readiness. An incentive for businesses to completely adopt digital technology would be to provide an ecosystem with end-to-end solutions for operations, management, payments, skilling, and even easy information sources. The global Covid-19 outbreak has forced businesses, including MSMEs, to digitally upgrade their operational procedures. This paper makes the argument that we should consider those factors that offer opportunities to deepen our understanding of MSMEs' attempts to digitise their operations. The government's policies on widespread social restrictions and physical segregation have a significant negative impact on MSMEs' operations. The development of business centres utilising the digital transformation paradigm may help MSMEs to go digital.

Keywords: digitalization, micro small medium enterprises, covid-19

INTRODUCTION

The MSME sector in India has grown incredibly robust and dynamic. By encouraging entrepreneurship and generating significant employment possibilities, the sector significantly contributes to the economic and social growth of the nation. More than 63 million MSMEs are located across the nation, and they produce goods and services that support roughly 30% of the GDP and nearly 11 crore people's daily needs. The MSME Ministry wants the sector to contribute up to 50% more to the national GDP by 2025. During the months of April through September in 2021–2022, 45.8% of the nation's total exports were made up of MSME-related goods. MSMEs are essential to the nation's ability to grow economically. More attention is being given to India now that it wants to grow its economy to USD 5 trillion. The amount allotted to the MSME sector in the Budget 2022–2023 grew to INR 21,422 crore from INR 15,699.65 crore in the previous year. Micro, small, and medium-sized firms (MSMEs), which play a significant role in economy in terms of GDP, employment creation, exports, and lending opportunities, are a major factor in the recovery. Throughout the most of the fiscal year 2021, business was difficult for the segment. MSMEs' projected revenues decreased 7–10% year over year in fiscal 2021. Due to lockdowns enforced by the federal government and individual states, 67% of MSMEs temporarily stopped operations during the first three months of the fiscal year. Although the COVID-19 epidemic severely affected the MSME sector, ongoing support from the government has made sure that the stress

is kept to a minimum and their recovery is aided. The government's initiatives to support manufacturing, such as Make in India and the PLI programmes, will assist Indian MSMEs establish themselves firmly in international value chains. Various research carried out during the COVID-19 outbreak show the significance of developing technology in crisis management. Cloud computing, big data, Artificial Intelligence (AI), and other developing technology have all been used by the Indian government to identify pandemics, track viruses, develop treatments, and reinstate jobs. With the use of digital tools, employees are able to work remotely and with greater flexibility.

DEFINITION OF MSME

“In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below:

- a micro enterprise, where the investment in plant and machinery or equipment does not exceed 1crore rupees and turnover does not exceed 5crore rupees;
- a small enterprise, where the investment in plant and machinery or equipment does not exceed 10crore rupees and turnover does not exceed 50crore rupees; and
- a medium enterprise, where the investment in plant and machinery or equipment does not exceed 50crore rupees and turnover does not exceed two hundred and 50crore rupees.”

Revised Definition of MSMEs

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < Rs. 1 cr. and Turnover < Rs.5 cr.	Investment < Rs. 10 cr. and Turnover < Rs.50 cr.	Investment < Rs. 20 cr. and Turnover < Rs. 250 cr.

Source: Ministry of Micro, Small Medium Enterprises

CURRENT MSME LANDSCAPE:

MSME growth is thought to be fulfilled by the time passes. Additionally, they supported the growth of entrepreneurial endeavours by developing innovative business plans. Utilizing digital technologies, MSMEs broaden the reach around the market, producing a variety of goods and services to satisfy domestic and global demands. According to the MSME annual report for 2019–2020, 63.38 million recorded companies are MSMEs, with 99.57% being Micro, 0.14% being Small, and 0.29% being Medium Enterprises. Their efficient contribution is 580 billion dollars in the economy with employment generation for 110.98 million people.

NUMBERS OF MSME IN INDIA:

India's alleged MSMEs population MSMEs play a pivot role by, among other things, industrialising urban and underdeveloped regions, offering considerable job possibilities at prices that are comparably cheaper than those charged by important sectors, and guaranteeing an efficient distribution in income and wealth. According to the National Sample Survey (NSS) of Round 73, carried out by the “National Sample Survey Office, Ministry of Statistics” and Progress Monitoring, 633.88lakh non-farming MSMEs participated in a variety of economic activities in the nation during the 2015–16period).

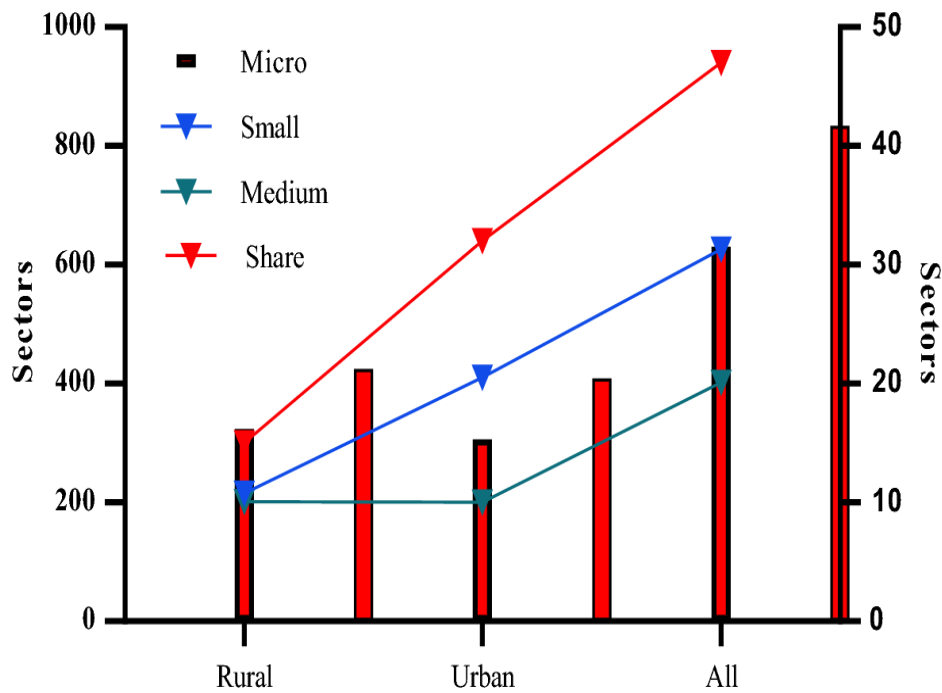


Fig. Estimated no of MSME In India

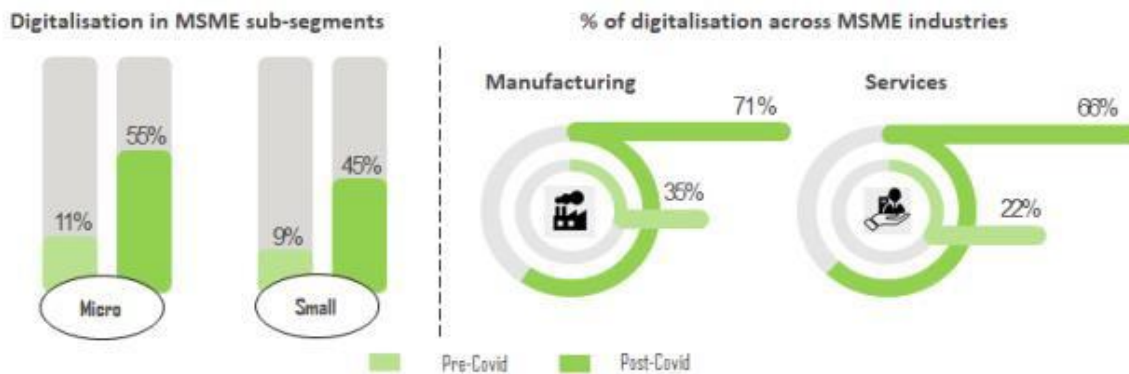
DIGITALISATION OF MSME

“Digital transformation is the use of digital technologies to significantly impact all aspects of the business - people, process, technology and metrics”. According to Vivek and Chandrasekhar (2019), the term "digitalization" is an application of modern transformation to change a traditional model into hybrid to improve the procedure and produce value through the digital flow of information. In contrast to digital transformation, which occurs across businesses with significant organisational impact and in which the underlying business model of the company may change with the incorporation of technology, digitalization discusses how information technology (IT) or digital technology may be used to improve business operations (Verhoef et al. 2019).

MSMEs may access more global markets because to digitization, which also reduces supply chain risks. MSME earnings were negatively impacted by the COVID caused shutdown and limitations by 7–10%. Businesses that are agile stand a better chance of success. By facilitating effective product delivery, facilitating remote transaction management, and facilitating access to financial services, digitalization can aid MSMEs in the short to medium term. It may result in measurable advantages for MSMEs, such as improved customer acquisition, operational efficiency, staff augmentation, risk management, and innovation. Less than 10% of MSMEs presently use technology, according to a CRISIL report.

According to a CRISIL survey of more than 500 MSMEs, the digital footprint of MSMEs has grown since Covid19 disrupted the market last year. Digital platforms' MSME loan book has increased year over year thanks to the digital option for rapid financing.

Traction in digitalisation seen across MSME segments



Source: MSME-ASSOCHAM-CRISIL study

In pre COVID-19 era, some micro sector digitalised but after COVID-19, digitalization in micro segment grow from 11% to 55% and in small segment growth rate increased from 9% to 45%. Before COVID-19, only 35% manufacturing industries operate on the basis of digital technology but after pandemic there is a huge growth in manufacturing industries. At present, 71% manufacturing industries performed their functions digitally. Same as manufacturing sector, service sector also records a huge growth after pandemic which is from 22% to 66%. So, it is clearly seen from the graph that after COVID period, there is large growth in performance and operations of MSME’s sector because of digitalisation. Although MSMEs that have introduced digitalization to existing digital platforms have shown little passion or innovation, doing so will nonetheless help entrepreneurs assess their success in the competitive digital world (Tayibnapis et al., 2021). As digital connections get faster and more reliable, more people are using the internet, which raises the demand for digitalization as clients quickly shift toward digitization. In their study on the effects of digitalization on MSME, Matt and Kayal (2017) found that MSME performance was improved by automating product and process automation. Additionally, it boosts sales and gives digital platform businesses new ways to raise money.

ROLE OF MSME IN INDIAN ECONOMY:

Through corporate innovations, MSMEs have made a substantial contribution to the advancement of business administration. To fulfil the demands of the domestic and international markets, MSMEs expand their sphere of influence to include several economic grounds and generate a variety of goods and services .The Central Statistics Office has data that shows the MSME sector's role in nation's Gross Value Added (GVA) from 2014–2015 to 2019–2020, both at current prices.

The Gross Domestic Product of India is greatly boosted by MSMEs (GDP). An ambitious economy, with strong financial support may contribute to the growth of issues. MSME digitalization will survive in long run toward resolving the problems and providing support to small businesses to make a huge customer base and generate bigger profits they did in past. MSMEs have contributed approximately 50% of India's total exports over the last five years, however due to COVID-caused lockdowns and a slowdown in the economies of importing countries, MSME exports fell 8% on-year in fiscal 2021. as well as recovery from the dip brought on by COVID This fiscal year, a rebound in export demand for MSMEs across sectors was driven by rising foreign demand for Indian goods. In the last five years, the percentage of MSMEs in total exports has been circling at 48–49%. Export-related MSME industries are recovering, and we anticipate that trend to continue in the upcoming fiscal year.

MSME share hovering around 27-30% of GDP over

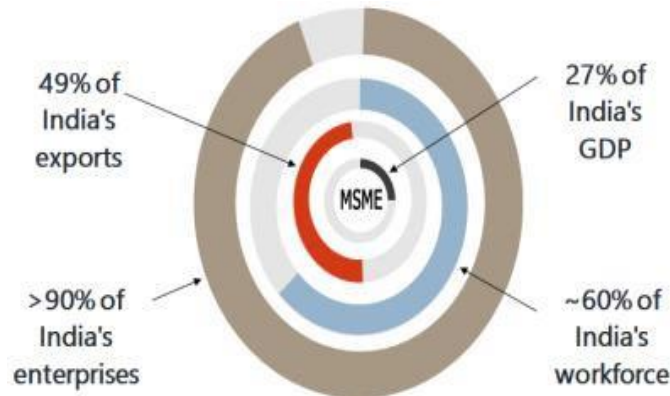


Fig. Role of MSME in economy

PAYMENT SYSTEM IN MSME:

“According to a FIS report, the country's e-commerce market is anticipated to grow 84% to hit \$111 billion by 2024 as covid-19 brings more and more Indian consumers online”. Retail outlets owners banks, and financial market all across the world may depend on FIS for creative solutions. Due to COVID-19, customer behaviour has changed in a number of nations, including India, and new payment patterns are anticipated. In 2020, the year of epidemic, (march) going through one of the hardest lockdowns, digital wallets (40%), debit cards (15%) credit cards (15%) were listed as an important and popular means of payment online. The report predicts that by 2024, digital wallet transactions will increase online “transactions by 47%.

Two types of popular payment system in India are prevalent : paper-based money, such as cheques, draft and electronic transfers, *National Electronic Funds Transfer (NEFT)*, *Real- Time Gross Settlement (RTGS)* are two of them.

Beginning in early 2000, India has made excellent progress with digital payments. By 2025, 58% of all cash and noncash payments would likely be made digitally, up from 3% in 2005.

DIGITAL TECHNOLOGIES FOR MSME:

There have been numerous discoveries, creations, and technological improvements whose result in the form of digital era in which we are living. These developments not only have the potential to simplify and improve the quality of our personal relationships, but also to greatly improve the efficiency of our professional lives. As every person and business accepts and go with the changes accordingly these continue to gradually modify our environment. Though there are 100 of new inventions made every day, several of them are truly significant. Each corporation must be aware of these DT changes in smaller businesses.

- **Customer relationship management**

The quality of such relationships can determine how one advances and develops because businesses are based on relationships. A CRM a kind of cloud- based technology that supports businesses by, among other things, boosting sales, keeping customers, developing CRM usage, converting leads, and reducing marketing costs.

- **Digitizing of payment**

Turning consumers away is frequently a bad experience for a business owner because there aren't adequate payment options. Today, every customer prefers payment methods which are most convenient

for them. As a business owner, you should respect their preference. A credit card terminal with a portal in online mode are only a couple of the possibilities you should make available to them. Most people no longer carry large quantities of credit cards or cash, and digital payment is frequently thought to be more secure and reliable. You can make electronic payments with PayPal and Securepay.com.

● **VIRTUAL MEDIA AND WEBSITE**

The social media initially was designed with an objective of engaging and remain in touch with every friends and family it has progressively grown to become one of the most important and significant corporate communication channels. Social media may be used by both big and small businesses to do market research as well as to connect with customers and get their opinions.

ADVANTAGE OF BEING DIGITAL:

Customer procurement: Using digital banking technologies guarantees that we may connect with customers worldwide for greater exposure and interaction. Customer relationship may managed more easily, and in more numerous support give insight into your target audience. This enables us to create advertising campaigns and effectively market your products.



Fig. Opportunities of MSME

- **Technical accomplishment**—As a digitally-enhanced MSME, technology may Faster fundamental tasks, enhancing your efficiency. Using resources more effectively and giving us more control over logistics will be made possible by this.
- **Workforce assistance** with digital technologies we can identify possibilities in importance of overall development. This will be easy to train staff members about the new Digital technology ideas, as well as to assess their performance.
- **Controlling Risk:** With the use of security tools, you will use digital transformation to protect the company's financial records and confidential data. Automated monitoring can also help you maintain a close eye on your property's resources and improve logistics.
- **Boost Efficiency:** Using DT allows employees to work more swiftly and effectively. Additionally, they may work around the clock and remotely to respond quickly to a company emergency.
- **Innovation** -Customers can improve the metric analysis of the company by applying digital technologies, or innovation. Metrics such as website traffic, operational metrics such as sales and acquisitions, informational measures such as customer insights, and human resources metrics such as employee job satisfaction can all be utilised to quickly enhance various elements of the company.
- **Cost Savings:** By automating key processes and optimising workflows, digitization enables cost savings. Additionally, you are not required to spend money on advertising when doing business in

any nation in the region.

- **Reduce human resource requirement:** -lowers the demand for human resources The use of employees will decline as digital platforms automate the majority of commercial processes. User errors will be less likely to occur, and surveillance will be decreased.

CHALLENGES ON THE ROAD TO TRANSFORMATION:

- **Knowledge Gap Regarding Tech-Enabled Services**

The benefits of technology-enabled services like social networking platforms and e-commerce remain unknown to many SMEs. Businesses are prevented from implementing digital strategies due to a lack of knowledge about cutting-edge technology and scepticism.

- **Lack of understanding of "the impact of digital transformation"**

Unaware of the effects that digital transformation has on business facilitation, growth, and customer engagement and loyalty, many small firms. This leads to numerous postponements or complete avoidance of the choice to start a Digital Transformation journey. As lack of innate technological knowledge independently creating a Digital Transformation Roadmap will be difficult because SMEs almost never have inherent technological competence. Additionally, there may be significant reluctance to even contemplate hiring an outside auditor.

- **Inadequate Infrastructure and Fund**

The SME sector in India experienced a sizable 2.93 trillion in financing demand deficit in 2016 according to a study by the International Finance Corporation (IFC). Due to inadequate infrastructure and financing, SMEs in India encounter significant difficulties.

- **Ineffective regulatory structure**

Data privacy worries are exacerbated by inadequate technology. The processing and protecting of data from illegal access, change, damaging or releasing information to third parties without their permission is known as data security. Security worries are primarily caused by malware and cyber attacks. Despite of stringent cybercrime rules and regulations in our country, SMEs are reluctant to adopt innovative DT.

CONCLUSION:

According to the findings of this study, MSME players prioritise digital innovation as a survival tactic against the Covid-19 epidemic. The majority of MSMEs have a fairly open mind when it comes to using digital technologies to grow their operations. MSME sector are aware that in the current digital world, technology is a crucial component of business growth Digital transformation takes place as a result of the adoption of new digital tools and skills. The right digitization strategy is needed in order to meet business goals and produce SME goods or services that are more competitive. The majority of MSME sectors, however, find this technological shift challenging. Cultural variety, cultural pluralism, and social drive are all related to competitive advantage. For the digital transformation process to be successful, the proper digital infrastructure testing is needed during the Covid-19 pandemic and successfully undergone transition.

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