

Assessing the Impact of Digitalization on Msmes Performance

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ABSTRACT

This study aims to examine the impact of digitalization on Msmes performance, as well as challenges and opportunities in digitalization and effective technology management strategies. The digital era presents MSMEs with a number of obstacles, including scarce human and financial resources, poor digital infrastructure, and little technical knowledge and awareness. However, MSMEs can also benefit significantly from digital transformation, which opens up new markets to them, increases operational efficiency, and gives them the capacity to use data analysis to make better decisions. This research discovers that good technology management techniques are essential for the digital transformation of MSMEs through a qualitative approach and literature review. The strategies include of creating a strategy for technology plan that is compatible with business goals, choosing and integrating the right systems, and skill-building programs for employees. The purpose of this study is to investigate and determine the most innovative strategies for MSME digital business development. The study concludes that MSMEs can increase productivity and innovation, automate business operations, and save operating expenses by implementing digital technology properly.

Keywords: Digitalization, Msmes, Digital Business Strategies, Digital Awareness

1. INTRODUCTION

India's MSME market has expanded in a very healthy and dynamic way. By promoting entrepreneurship and generating significant job prospects, the industry plays a crucial role in the economic and social advancement of the nation. Digital transformation has become essential for all economic sectors, especially micro, small, and medium-sized firms (MSMEs), in this quickly changing digital world. The use of digital technology can help to increase market reach, boost competitiveness, and improve operational efficiency. Across the country, there are over 63 million MSMEs that generate goods and services that meet the daily requirements of about 11 crore people and contribute approximately 30% of the GDP. By 2025, the MSME Ministry expects the sector to increase its share of the national GDP by up to 50%. In 2021–2022, MSME-related items accounted for 45.8% of the country's overall exports from April through September. MSMEs are critical to the country's capacity for economic expansion with India aiming to reach a GDP of USD 5 trillion, the country is receiving more attention. The Budget 2022–2023 increased the amount allocated to the MSME sector from INR 15,699.65 crore to INR 21,422 crore. Micro, small, and medium-sized enterprises (MSMEs) are a key component of the recovery since they contribute

significantly to GDP, employment creation, exports and lending opportunities [1].

Small and Medium Enterprises (MSMEs) are vital for the world economy, especially in nations such as Indonesia, making substantial contributions to both GDP and job creation. Digitalization can reduce the effects of transformation capabilities on the performance of MSMEs [2].

A lot of small and medium-sized enterprises are still not knowledgeable about recent technologies like digital marketing and e-commerce. Their skepticism, combined with their lack of knowledge, prevents them from transitioning to digital platforms. Digital transformation can assist small and medium enterprises in overcoming these obstacles by granting access to a wider market and facilitating more effective operations. Nevertheless, this process of transformation is intricate and frequently faces many obstacles. Through digital transformation, small and medium enterprises can enhance processes, increase efficiency, and broaden their market reach [3]. MSMEs are able to seize new opportunities and adapt to consumer demands more flexibly than big corporations. Hence, it is essential to identify and implement innovative strategies in order to enhance the competitiveness of MSMEs on a global scale. By embracing a focus on innovation, MSMEs can utilize cutting-edge technologies, create flexible business models, and establish partnerships that allow them to stay competitive in an ever-changing international market. MSMEs frequently encounter various difficult obstacles such as restricted resources, restricted entry to international markets, and a lack of knowledge and use of digital technology [4]. These limitations play a crucial role in hindering the growth and competitiveness of MSMEs in the constantly evolving business environment. Hence, implementing new tactics in digital business growth is seen as a very favorable way to surpass these hurdles [5]. Aside from limited resources, MSMEs frequently encounter problems with infrastructure. Slow and unreliable internet access continues to be an obstacle in numerous developing nations. MSMEs face challenges in adopting digital technologies due to insufficient infrastructure, such as lacking necessary hardware, software, and reliable technical support. Insufficient infrastructure, like slow or unreliable internet connections, may impede MSMEs from embracing digital technologies to improve efficiency and competitiveness [6].

Digitization not just aids in choosing marketing techniques, but also fosters strategic collaboration chances. Small and medium-sized enterprises (MSMEs) have the opportunity to collaborate with big E-commerce websites in order to enhance their visibility, utilize cutting-edge technology infrastructure, and receive essential logistics assistance. It's more than just selling goods, it's also about creating mutually advantageous partnerships. Facing swift shifts in consumer behavior, digitization enables MSMEs to easily adjust [7]. Digitalizing customer services in MSMEs can result in many advantages such as saving money, reaching more customers, boosting sales, and improving customer loyalty [8]. In this way, MSMEs have the capability to improve customer service levels and speed, leading to higher levels of satisfaction and loyalty.

Nevertheless, MSMEs must create successful technology management strategies in order to take advantage of these opportunities. This involves choosing the correct technology, leading change, and instructing staff members. MSMEs must select technology that aligns with their requirements and capabilities, and also have a well-defined implementation strategy in place. Technology has the potential to aid MSMEs in creating new products and innovative ideas. MSMEs can enhance their products and adjust to evolving market trends by embracing technologies like digitalization and digital transformation. Additionally, it is important to make cultural and organizational changes to ensure that all members of the organization accept and effectively use new technologies. Selecting the appropriate technology not only enhances productivity and innovation, but it can also assist MSMEs in broadening their market reach and

generating fresh business prospects. Through the use of technology, small and medium enterprises can grow their business, generate employment opportunities, and help uphold societal equilibrium. Research in this situation " Assessing the Impact of Digitalization on Msmes Performance" is highly relevant. This study will provide valuable insights into the digital transformation processes of MSMEs, aiding them in overcoming obstacles and capitalizing on growth opportunities for sustainable development.

2. RESEARCH METHODS

The research utilizes a qualitative approach in conjunction with a literature review. This method focuses on recognizing, examining, and combining different results from past research on the challenges and opportunities encountered by small and medium-sized enterprises in handling digital technology. The first step in this research is to clearly outline the problem and set objectives of research. The focus is on the difficulties and possibilities MSMEs face when adopting and handling digital technology. The main aim of the study is to pinpoint the primary obstacles and possible advantages, as well as offer guidance for MSMEs and policymakers to encourage SME digital evolution. Secondary data, sourced from credible outlets like scientific journals, books, government and non-governmental reports, as well as dissertations and conference papers published in the past ten years, are crucial to this study.

Conduct research by using predetermined keywords, broaden and provide more information during the search duration. Evaluate the methodological rigor of each selected literature in order to maintain the research's credibility and validity. Recognize and gather important details from every article, such as findings, research methodology and consequences for the impact of digitalization on MSMEs performance.

3. FINDINGS AND ANALYSIS

Small and medium-sized enterprises (MSMEs) encounter a complex and often challenging process when it comes to implementing digital transformation. Resource limitations, including financial and human, are a key obstacle for MSMEs to overcome. Many small and medium enterprises lack the necessary funds to invest in new technologies or provide training for their employees. Furthermore, the lack of employees proficient in digital skills is impeding the successful incorporation and functioning of digital technologies. MSMEs face challenges in efficiently implementing technology to its maximum potential without the necessary expertise.

Furthermore, insufficient digital infrastructure poses a major obstacle for MSMEs as they embark on their journey of digital transformation. Slow or unreliable internet access hinders MSMEs in rural or remote areas from maximizing the benefits of digital technologies. The situation worsens due to restricted availability of essential hardware and software, along with unreliable technical support. Inadequate infrastructure hinders MSMEs from competing fairly with bigger, more technologically advanced firms. Another obstacle encountered by MSMEs is their limited understanding and awareness of the advantages and applications of digital technology. Numerous small and medium-sized enterprise (SME) owners and managers do not realize the significance of digital transformation or lack the knowledge needed to execute it effectively. This lack of knowledge results in a reluctance to accept change and implement new technologies. MSMEs may be reluctant to invest in digitalization efforts if they fail to understand the benefits and opportunities offered by digital technology, they may overlook opportunities to enhance operational efficiency and expand their market share.

Limitations in available resources

Msmes understand the significance of digital transformation; however, there is a deficiency comprehension at the operational level. Some companies feel that, because of their specific focus businesses with straightforward organizational setup, digital transformation does not hold much importance to those individuals. Others have a shallow comprehension, viewing it as merely digitizing office duties missing thorough strategizing and a forward-thinking approach to digital transformation. Furthermore, these businesses often avoid taking too many risks, choosing instead to take a cautious approach and wait to see the outcome to failed chances for change.

Additionally, these companies are restricted by their financial resources. Even though considered as possible small Despite being small and medium-sized enterprises (SMEs) that have a specific scope and market competitiveness, they nevertheless face major obstacles to survival in the present market conditions. In the presence of existing circumstances struggling with day-to-day functions, these businesses have a hard time obtaining enough funds to meet their needs aid in the process of digital transformation.

Finally, these businesses are faced with a lack of skilled digital professionals. As the shift to digital technology progresses growing demand for skilled professionals in the digital field due to intense competition within various industries. Amazing difference between supply and demand in the talent market as opposed to big state-owned companies, SRUN enterprises seem to struggle in both attracting and keeping top-tier digital talent. It is difficult to solve the lack of digital skills in the near future [9].

Insufficient infrastructure

Predicting the challenges and advantages in Industry 4.0 is significantly harder due to the exponential rate of technological advancements compared to past industrial revolutions. The fourth industrial revolution is also causing a transformation in how technology is utilized. The way we communicate, use data and analyse information impacts our lifestyle, profession and relationships. Businesses encounter varied obstacles in the drivers of digital transformation: digital infrastructure, digital skills supply and demand, entrepreneurial culture, investment and finance access, and e-leadership. Updating infrastructure and providing Internet connectivity are critical for the success of digital projects. Having digital infrastructure is crucial to drive forward the process of digital transformation. As per the DESI methodology, digital infrastructure consists of: accessibility to internet, internet speed, utilizing ERP software for business integration, and incorporating CRM systems. Investments to finance research, development, and commercialization of digital technologies are crucial for building digital infrastructure and capabilities, as well as implementing digital solutions in various sectors at all levels in society [10].

Dependable technical assistance is necessary for digital transformation, but small businesses often lack access to it. Technical support for MSMEs in addressing technology problems or managing digital systems is greatly lacking in several regions. Studies show that insufficient infrastructure can greatly hinder MSMEs in their adoption of digital technologies. This problem is significant as MSMEs typically face limitations in resources, both financial and in terms of personnel, which hinder their ability to utilize the technical assistance needed for adopting digital transformation [11]. By utilizing online platforms, small and medium enterprises (MSMEs) will have the ability to automate numerous operational processes like management of stock, processing of orders, tracking of deliveries, automatic repetitive tasks and also increases efficiency. Digitalization decreases the amount of manual work required, while also lowering the chance of mistakes and enhancing overall performance, efficiency in operations. inventory can be easily accessed and managed. Different stakeholders in the company are able to access real-time product

specifications. This minimizes the necessity for verbal exchanges and guarantees participation from all individuals involved. Those participating are able to obtain precise and current information [12].

By offering online communication platforms, MSMEs can answer customer inquiries and receive feedback faster. Utilizing chatbots and automated customer support systems can enhance customer service, boost customer happiness, and lower response times. E-commerce assists MSMEs in allocating resources more efficiently by reducing the necessity for physical stores and the associated overhead costs. Moreover, the utilization of cloud technology and E-commerce management systems offers affordable options for businesses to store and handle their data [13]. Implementing digital technology necessitates the alignment of resources and systems with the changing landscape of industries due to technology. It cannot be denied that business owners opting for digital transformation in their operations will face obstacles that must be taken into account. Many of these difficulties could be connected to the culture within the organization, while some might come from a shortage of resources to purchase new technology or having inexperienced employees managing change. Hence, it is important to tackle and recognize these challenges. Once an organization attains genuine unified digitization, setting up systems across the entire organization becomes effortless, and the adoption of new tools can happen more quickly than before [14]. Lack of proper infrastructure can cause difficulties for MSMEs dealing with technical challenges, data security concerns, and system integration issues in the digital transformation journey. MSMEs could encounter challenges in implementing and using digital technologies if they lack dependable technical support, resulting in potential disruptions to business operations due to downtime. Dealing with these infrastructure problems needs funding from the government and private industries in enhancing digital infrastructure, along with offering technical assistance programs available to MSMEs. Improved infrastructure enables MSMEs to efficiently utilize digital technologies and boost their competitiveness in the international market.

Absence of knowledge and understanding

MSMEs have mostly struggled to transition to digital platforms due to numerous uncertainties, lack of understanding, and security worries. This makes a substantial impact on the GDP, exports, and job creation in the country.

Numerous small and medium-sized enterprise (SME) owners and managers do not understand the significance of digital transformation or lack the necessary expertise to successfully integrate technology. MSMEs encounter a significant obstacle in the digital transformation process due to their limited understanding and awareness of the advantages and applications of digital technology. A large number of small and medium-sized enterprise (SME) owners and managers fail to understand the power of digital technology in improving operational efficiency and increasing their market presence. Frequently, this lack of knowledge results in resistance to change because individuals may prefer the traditional business strategies they have been using for a long time. MSMEs often hesitate to invest resources and time in adopting digital technology due to a lack of clear understanding of its benefits for their business. Studies show that a lack of knowledge about digital technology can greatly hinder small and medium enterprises from embracing digital technologies [15]. Knowledge plays a crucial role in gaining a competitive edge and coming out ahead in the competition. Knowledge serves as a valuable asset for enhancing performance and gaining a competitive edge in the corporate world. Constraints in effectively managing knowledge as the primary asset of the organization will hinder the ability to gain a competitive edge and enhance overall organizational success. [16][17].

Lack of knowledge about digital technology can hold back MSMEs from taking advantage of opportunit-

ies like online marketing, digital financial management, and creating technology-driven business models. Hence, training and educational initiatives funded by either governments or NGOs play a vital part in boosting understanding and awareness of digital technology among MSMEs. By gaining a deeper comprehension, MSMEs can become better equipped and inspired to embrace digital technology, ultimately boosting their competitiveness and facilitating business expansion.

Opportunities for Micro, Small, and Medium Enterprises

Through the use of digital technologies, MSMEs can create more streamlined business models, enhance their presence on online platforms to reach a wider global audience, and bolster their position in the digital space. Furthermore, through enhancing their knowledge of digital technologies and integrating creative strategies, MSMEs can surpass operational challenges and enhance their competitiveness, creating possibilities for long-term expansion and progress. Digital business development not only helps MSMEs access global markets but also enhances operational efficiency and creates opportunities for innovative advancements in products and services. The use of digital solutions in MSMEs has the potential to completely change the way they operate, going far beyond traditional outreach methods [18]. Through the use of digital technology, MSMEs can enhance efficiency across different areas, including inventory management and marketing. One of the major effects of incorporating digital solutions is the enhanced ability to adjust to rapidly changing market dynamics. Therefore, the enhanced ability of MSMEs to adapt to market fluctuations is guaranteed, allowing them to actively participate in a dynamic and competitive business environment.

Enhancing the competitiveness of Micro, Small, and Medium Enterprises (MSMEs) not only boosts their market position internally but also plays a significant role in reaching the Sustainable Development Goals (SDGs). Concentrating on sustainable economic growth, enhancing the competitiveness of MSMEs has a beneficial effect on overall economic development [19]. Furthermore, by offering fair employment opportunities, MSMEs play a key role in advancing SDGs linked to job creation, enhancing community cohesion, and enhancing individuals' well-being.

4. RESULTS AND DISCUSSION

The results emphasize the significance of adopting digital technologies on different measures of competitiveness, lack of resources, infrastructure, knowledge and understanding of digitalization, growth in market share, performance in innovation, efficiency in operations, and satisfaction of customers. Additionally, there are key organizational factors, such as backing from leadership, fostering innovation, and enhancing digital skills, that play a significant role in the effective utilization of digital transformation by MSMEs. The need to improve the competitiveness of MSMEs through modern digital business strategies is clear in today's digital age. MSMEs need to utilize information technology and digital platforms to establish a unique competitive advantage in the vast global market, as they are vital to the economy. For MSMEs to optimize the advantages of digital transformation, they must execute successful technology management strategies. This involves creating a cohesive technology plan that supports business goals, choosing and implementing appropriate systems, and training and enhancing manpower' capabilities. By adopting a holistic strategy and receiving suitable assistance, MSMEs can successfully address current obstacles and take advantage of the possibilities presented by digital technology to enhance business expansion and continuity. Digital transformation involves more than just implementing new technology; it also requires rethinking processes and attitudes to generate long-lasting benefits.

In the end, this research offers practical suggestions for MSMEs to focus on digital transformation initiatives, enhance their organizational skills, and successfully adapt to the changing digital environment in order to accomplish long-term growth and competitive edge.

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