

STUDY ON IMPACT OF DIGITAL TRANSFORMATION ON THE SUSTAINABLE DEVELOPMENT OF MSME

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ABSTRACT

The Micro, Small, and Medium-Sized Enterprises (MSMEs) industry has long been regarded as the fundamental pillar of our economy, exerting a notable influence on several economic metrics. The socioeconomic growth of our nation has benefited greatly from the contributions of Micro, Small, and Medium-Sized Enterprises (MSMEs). There are around 64 million businesses in this specific sector. Micro, Small, and Medium-Sized Enterprises (MSMEs) have contributed significantly to the lives of over 100 million people in addition to creating over 600,000 new job possibilities. Furthermore, these businesses have contributed significantly, making up about half of all exports from the country. The introduction of the country's GST tax system has presented the MSME sector with a number of hurdles in recent years. Due to the aforementioned change, a large number of micro, small, and medium-sized businesses (MSMEs) are now facing increased competition and indirect taxation. The Micro, Small, and Medium-Sized Enterprises (MSME) sector is growing at a slower rate now that certain recent events have occurred. Simultaneously, the existence of several barriers, such as inadequate expertise, inefficiencies in the supply chain, and constraints in acquiring capital, implies a potential exacerbation of the circumstances encountered by these companies. The pandemic's effects are posing serious obstacles to India's MSME sector, which are made worse by the world economy's current state of decline and inflation brought on by Russia's invasion of Ukraine. Given these conditions, it is imperative to find and apply practical solutions that might help the industry get through the impending stagflation. One possible way to improve small enterprises chances for success in the marketplace is to use digitisation in their production processes. As a result, a popular strategy to handle the many problems faced by micro, small, and medium-sized organisations (MSMEs) is the adoption of digital transformation. To meet the demands of this industry, the government has put the "Digital MSME" policy into action. A number of stakeholders, including financial institutions, are also providing MSMEs with training courses to help them deal with the difficulties brought on by the digital revolution. The objective of this study is to investigate the impact of digital transformation on the growth potential of micro, small, and medium companies (MSMEs).

Key Words: MSME, Small firms, Digital Transformation, Digitalization

Introduction

In the Indian context, it is observed that Micro, Small, and Medium Enterprises (MSMEs) make a substantial contribution to the nation's Gross Domestic Product (GDP), accounting for around 8% of the total. Furthermore, these enterprises are responsible for approximately 45% of the manufacturing output and contribute around 40% to the overall exports of the country. It would be appropriate to designate them as the fundamental support system of the nation.

The introduction of Micro, Small, and Medium Enterprises (MSME) by the Government of India aligns with the provisions outlined in the Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. These companies are mostly involved in the manufacture, manufacturing, processing, or preservation of products and commodities.

Micro, Small, and Medium Enterprises (MSMEs) have significant importance within the Indian economy and have made substantial contributions to the nation's socio-economic progress. In addition to creating job prospects, it also collaborates closely with the development of underdeveloped and rural regions inside the country.

Importance of MSMEs to Indian Economy

- Micro, Small, and Medium Enterprises (MSMEs) play a significant role in the employment sector, providing livelihood opportunities to around 120 million individuals. This places MSMEs as the second most substantial job provider, behind only the agricultural sector.

- The manufacturing sector provides around 6.11% to the Gross Domestic Product (GDP), while service activities account for 24.63% of the GDP. There are over 45 lakh units operating nationwide.
- In its pursuit of achieving a \$5 trillion economy, India is actively working towards augmenting the contribution of the Ministry of Micro, Small, and Medium Enterprises (MSME) to the Gross Domestic Product (GDP) by a potential increase of 50% by the year 2025.
- MSME account for around 45% of India's overall exports.
- Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in fostering equitable economic development via the generation of employment opportunities, particularly for those hailing from disadvantaged socio-economic backgrounds residing in rural regions.
- The presence of Micro, Small, and Medium Enterprises (MSMEs) in tier-2 and tier-3 cities plays a significant role in facilitating access to banking services and products, hence leading to the financial inclusion of MSMEs and their consequential contribution to the economy.
- Micro, Small, and Medium Enterprises (MSMEs) foster a climate of innovation by providing support to aspiring entrepreneurs in the process of generating new products. This assistance serves to enhance market competitiveness and stimulate overall economic development.

Literature Review

Roopa Kudva (2011), According to the Managing Director of CRISIL, encouraging SMEs to complete credit ratings is difficult, but it's necessary if the SMEs want to establish themselves in the global market and get a loan terms discount from banks. Sadly, the 75% rebate is only accessible to MSMEs for the first year that their rating is completed; after that, they must pay the full cost the next year, which puts a pressure on their finances. It is crucial to create a new framework for evaluating SMEs since, according to conventional scales, the majority would be rated poorly only due to their modest size. It is necessary to give up on the major corporate benchmarks.

C.B.Bhave (2010), According to the author's perspective, micro, small, and medium enterprises (MSMEs) play a crucial role in the majority of economies and represent a significant portion of industrial activity. Micro, Small, and Medium Enterprises (MSMEs) often encounter financial crises. The individual anticipates that the establishment of a SME stock market would significantly assist this sector by facilitating access to a diverse range of financial resources, enhancing the industry's reputation and credibility, and offering several other advantages.

Y.Srinivas (2005), MSMEs are crucial to the economy because they foster job creation, balanced and sustainable growth, the development of entrepreneurial skills, and a rise in export revenue. Nevertheless, despite their significance to the economy, the majority of SMEs are unable to meet the demands of globalisation, mostly due to financial issues. It is now essential to think about ways to facilitate the flow of finance to this industry in light of the opening up of the Indian economy. In terms of creating jobs, fostering entrepreneurship, fostering balanced and sustainable growth, and boosting export revenue, small and medium-sized businesses are crucial to the economy. Nevertheless, despite their significance to the economy, the majority of SMEs are unable to meet the demands of globalisation, mostly due to financial issues.

Bhatendra Kumar Gupta (2008), The MSME industry employs the second most people in India, after the agricultural sector. The demand for MSME capital raising is become more and more important as the Indian economy expands. He claims that in order to better serve the MSME sector's demands, which vary from those of the major companies, a separate STOCK market is required.

SME Chamber of India (2011), the prospects for SMEs to grow and diversify across industries are more abundant than ever. The Indian market is expanding quickly, and Indian business people are excelling in a variety of fields, including manufacturing, food processing, pharmaceuticals, retail, textile and apparel, IT and ITES, agriculture, and services.

Kristin Hallberg, (2000), the governments of both developed and developing nations provide a broad range of initiatives to support small and medium-sized businesses. While some developing nations have had success with SME policies, most have concluded that the programmes they have implemented to support SME growth have not had a significant enough influence on firm performance. This study examines the theoretical and empirical justifications for economic intervention to promote small and medium-sized businesses. Additionally, it offers a framework for SME intervention that will aid in the development of SME strategies, the evaluation of the success of assistance initiatives, and the attainment of the goal of enhancing SME competitiveness in the client nations of the Bank Group.

Vijay Kumar (2011), "Zero waste and continuous design improvement hold the key to survival and growth of MSMEs," the statement goes on to discuss a few fundamental problems that the MSMEs sector faces, including a lack of knowledge, investment, and resources.

Mohanta et.al.(2017), examined the potential of the Digital India initiative and recommended that increased use of digital technology be added to the necessary boost to the nation's economy provided by MSMEs.

RESEARCH GAP

The literature review makes it evident that research has been done on the fundamental problems that the MSME sector faces, such as a lack of resources, investment, and awareness; the necessity of a dedicated stock exchange to help the MSME sector better meet its needs, which differ from those of large industries; the significance of having a credit rating for MSME's to position themselves in the international market; etc. Therefore, an attempt is made to investigate how the digital revolution affects MSME sustainable growth in this research.

RESEARCH OBJECTIVES:

1. To examine the role of e-commerce affects MSMEs' potential for development.
2. To investigate the difficulties MSMEs have when becoming digital.

RESEARCH METHODOLOGY:

The necessary data was gathered from a variety of sources, including websites, reports from the Indian government, published research studies, and pieces in newspapers.

E-commerce, digital transformation key for growth of MSMEs

The MSME sector experienced significant interruptions as a result of the pandemic, particularly among the manufacturing industry. Although official government data is still pending, surveys performed during the pandemic have shown significant concern within this particular industry.

According to a research conducted by the Small Industries Development Bank of India (SIDBI), over 67% of micro, small, and medium enterprises (MSMEs) polled had temporary closures lasting up to three months during the financial year 2020-21, as a result of the COVID-19 pandemic. Furthermore, it was observed that a majority of the MSMEs surveyed, namely over 50% of the respondents, saw a significant decrease of more than 25% in their income streams during the year of 2020-2021. Approximately 66% of the units have reported a decrease in profitability due to the presence of fixed expenditures that remain constant and a fall in revenue.

The Indian Council of Research on International Economic Relations (ICRIER) is an esteemed organisation dedicated to the study and analysis of global economic relations.

A study was undertaken over the period of June to August 2021, targeting a sample size of 1537 micro, small, and medium enterprises (MSMEs) operating within the manufacturing sector. This survey was conducted immediately after the culmination of the second wave of the Covid-19 pandemic. This study diverged significantly from prior research conducted via surveys by only focusing on micro, small, and medium enterprises (MSMEs) that have established integration with e-commerce platforms. A total of 28 clusters across six industries were surveyed in India, including 10 different states.

The objective of this study was to examine the influence of electronic commerce (e-commerce) on micro, small, and medium enterprises (MSMEs) in India, with a particular focus on assessing the extent to which e-commerce and digitalisation have contributed to enhancing the business opportunities for MSMEs in the manufacturing sector in India. The digital transformation of many sectors of the economy is widely seen as a significant catalyst for development in the "Amrit Kaal" era.

Survey findings

During the Covid-19 pandemic, a majority of the firms that were examined indicated a spike in their internet sales. Due to imposed limitations on physical mobility, micro, small, and medium enterprises (MSMEs) that were interconnected with e-commerce platforms have a comparative advantage over their counterparts without an online presence. The use of online sales channels has facilitated the ability of Micro, Small, and Medium Enterprises (MSMEs) to maintain the continuity of their commercial operations. According to the survey results, there was a notable increase in the proportion of online sales from 12% in the 2018-19 period to 27% in the 2020-21 period. Furthermore, throughout the latter part of 2020, notable e-commerce organisations had a substantial surge in seller registration, reaching a remarkable 80 to 90% growth. It is worth noting that the majority of these newly registered sellers were micro, small, and medium enterprises (MSMEs) hailing from smaller urban centres and geographically isolated regions.

In spite of the impact of the Covid-19 pandemic, micro, small, and medium enterprises (MSMEs) that used e-commerce platforms saw a notable surge in their sales, turnover, and profitability. Approximately 70% of the 476 companies who were assessed and used e-commerce systems during the Covid-19 pandemic reported a rise in sales volume.

Approximately 65% of the participants saw a rise in turnover, while approximately 54% indicated an increase in their profitability. A comparatively greater proportion of micro businesses indicated a boost in business in comparison to medium and small companies.

Therefore, the process of digitalisation emerged as a means of adaptation in response to the challenges posed by the epidemic. The majority of micro, small, and medium enterprises (MSMEs) rely on third-party platforms for their operations. According to the findings of the study conducted on 1537 micro, small, and medium firms (MSMEs), it was observed that just 12% of the participants had their own electronic stores. Notably, the majority of these enterprises belonged to the medium category, while micro and small enterprises mostly relied on third-party platforms for their online sales activities. This highlights the significance of e-commerce platforms as alternative retail formats that do not need a physical shop presence. Indeed, our research revealed that these platforms served as catalysts for the emergence of several e-commerce-oriented start-ups that originated during the epidemic.

THE CHALLENGES

There are some noteworthy challenges that need attention. There are many impediments that hinder the use of e-commerce platforms by Micro, Small, and Medium Enterprises (MSMEs). Firms that have successfully integrated themselves into e-commerce platforms are obligated to get registration for the Goods and Services Tax (GST). However, these enterprises are unable to avail themselves of the advantages offered by the Goods and Services Tax (GST) due to the ineligibility of e-commerce platforms for the GST threshold exemption of Rs. 4 million. This is a notable drawback for micro, small, and medium companies (MSMEs). The current regulations pertaining to electronic commerce exhibit a consumer-centric approach, resulting in a disproportionate burden of compliance costs on micro, small, and medium companies (MSMEs). In addition, it is worth noting that despite the ongoing growth of digital infrastructure inside the country, there exists a persistent feeling of apprehension stemming from the current dearth of information and skill deficiencies. The micro, small, and medium companies (MSMEs) consistently demonstrate a deficiency in preparedness for complete digital integration, and they persistently display a propensity to compare their success with that of conventional offline selling methods. The challenge of efficiently recruiting and retaining clients is a substantial concern for micro, small, and medium enterprises (MSMEs), who face intense competition from larger organisations and established brands.

As the country grapples with periodic limitations on mobility, it is evident that e-commerce is emerging as a persistent and fundamental transformation in the methods of conducting sales. The poll further revealed that a majority of micro, small, and medium enterprises (MSMEs) express contentment with the existing digital infrastructure.

However, it must be acknowledged that due to the Covid situation, over the last two years, there has been significant on-boarding of MSMEs on e-commerce platforms, which was largely out of necessity. While the survey presented several benefits of e-commerce, challenges arise due to the current regulatory system, the nature of the Indian manufacturing sector and needs that are unique to Indian MSMEs.

As of now, e-commerce legislation has taken a haphazard approach, often emerging in reaction to the demands of India's sizable unorganised retail sector. There exists a need to harmonise policies across many ministries, ensuring a shared emphasis that aligns with the requirements of the Indian economy. The presence of a policy patchwork engenders a state of uncertainty and introduces intricate dynamics, particularly for smaller companies. The manufacturing industry in India has a dualistic structure, characterised by a significant presence of the unorganised sector. This attribute should be regarded as a notable advantage that the nation enjoys. The use of digital technology has significant untapped possibilities.

Simultaneously, it is essential for prominent e-commerce platforms to recognise that several firms have undergone a rapid shift from traditional brick-and-mortar retail to online operations. Indeed, the accomplishment requires the collective efforts of all those involved. Our research has shown that smaller entities have budgetary constraints that hinder their ability to engage in paid marketing strategies to fully leverage their integration with various platforms. In the given context, it is crucial for platforms to develop economically viable marketing strategies that enable micro, small, and medium companies (MSMEs) to fully capitalise on the advantages offered by the platform, similar to bigger corporations and well-established brands.

Conclusion

In recent years, the widespread integration of digital technology has significantly transformed the corporate landscape across several economic sectors. However, the rate of digital technology adoption among Medium, Small, and Micro Enterprise enterprises has been comparatively sluggish. The increased use of digital technology by these enterprises may be attributed to a combination of strong commercial motivations and government enforcement via different programmes and initiatives.

In our nation, there exists an estimated population of 60 million micro, small, and medium enterprises (MSMEs). Historically, these enterprises have relied on an informal credit system as a result of limited access to official lending mechanisms. The government's recent transformative efforts, such as Digital India and the Goods and Services Tax (GST), have prompted several micro, small, and medium enterprises (MSMEs) to embrace digital lending systems. This shift enables smaller organisations to access affordable loans in a convenient manner. Nevertheless, the integration of digitalisation into various aspects of business operations such as sales, payments, logistics, and advertisements among Micro, Small, and Medium Enterprises (MSMEs) is still in its early stages and has yet to fully develop. This is evident from the fact that, according to a report by Red Seer Consulting, only 6% of MSMEs had embraced digitalisation by the conclusion of 2018. Currently, hindrances in the process of digitalisation include a lack of knowledge at a basic level, limited availability of skilled human resources, and the associated costs of adoption. In addition, the limited comprehension of the advantages that can be obtained from technology utilisation, the absence of guiding mechanisms for integrating technology and incorporating it into business practises, and reservations regarding the initial investment costs have also contributed to the low adoption of digitalisation among micro, small, and medium enterprises (MSMEs). In contemporary times, the adoption of digital technology by micro, small, and medium enterprises (MSMEs) has been influenced by various factors. These include the evolving economic landscape, characterised by the production of affordable communication technologies, the widespread availability of high-speed 4G/5G networks, advancements in computing technology, and government initiatives aimed at promoting the growth of small and medium-sized enterprises (SMEs).

As a result, there has been a notable shift towards the integration of digital technology within the operations of MSMEs. In 2017, the Indian government initiated the "Digital MSME Scheme" with the objective of assisting small companies in leveraging cost-effective information technology infrastructure for the purpose of managing their company operations. This strategy is founded around the concept of "Cloud computing," which enables Micro, Small, and Medium Enterprises (MSMEs) to use internet connectivity for the integration of technology solutions into various company operations, hence eliminating the need for establishing a dedicated internal IT infrastructure. An additional programme, known as "MSME Samadhan," has been implemented to provide support to micro, small, and medium enterprises (MSMEs) in effectively monitoring and managing their outstanding payments from various entities. The implementation of digital technology-based grievance redressal programmes is attracting MSME enterprises and encouraging them to embrace digitalisation. In a similar vein, the initiative known as "MSME Sambandh" utilises a digital platform to facilitate the monitoring of procurement activities from micro, small, and medium businesses (MSMEs) by government-operated public sector firms. Overall, the micro, small, and medium enterprises (MSMEs) are now presented with a unique chance to adopt digital transformation. This potential is further enhanced by the favourable environment being established by the present administration. If implemented in a timely manner, the digital transformation has the potential to significantly enhance the performance of Indian MSME enterprises, both in terms of operational effectiveness and their overall impact on the national economy.

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