

A Study on Role of Digitalization in the Growth of MSME in the present context

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Abstract: Researchers have found that small and medium-sized enterprises (SMEs) benefit greatly from increased digitalization of their operations, both in terms of output and efficiency. Fortunately, there is not much proof that using technology to deal with the aftermath of major disasters like COVID-19 is effective. According to the research paper, the number of SMEs has dramatically expanded. Due solely to the development of digital technology (DT). In this approach, digitalization automates both the process and the product, increasing both demand and quality. Given the vast untapped potential in the country, India's small and medium enterprise (SME) sector has much room to expand its use of cutting-edge digital technologies. The primary scenario of SMEs in India and their contribution to GDP are covered in this essay. A brief review of SMEs' use of CRM apps and digital payment methods is also included in the report. Therefore, MSMEs must immediately boost their business chances by implementing a number of initiatives. Adoption of platforms equipped with digital technologies is one such measure. The single-stop answer to the problems these businesses are having is the digital transformation of MSME businesses. The government, which introduced the "Digital MSME" scheme for this industry, as well as other parties, including banking institutions, who are offering training to help MSME overcome the barriers to digital transformation, have both come to this realization. This essay makes an effort to investigate how digital revolution affects the potential for MSME growth.

Keywords: Digital transformation, significant potential, digital technology, MSME growth

Introduction

A brand-new coronavirus illness (COVID-19) began in Wuhan, China, in the beginning of March 2021, COVID-19 had arisen around the end of 2019 and quickly expanded to become a pandemic. By the beginning of March 2021, COVID-19 had sickened more than 129 million individuals worldwide, including more than 12.2 million in

India. Due to this health issue, businesses, especially Small and Medium-sized Enterprises, face more risks for surviving and expanding (SMEs). In a lot of ways, the COVID-19 epidemic has hurt the economy. In order to fight the infection, government agencies have put a lot of restrictions on imports and exports. This makes global supply chains very vulnerable. Second, the delay in people going back to work has cut businesses' ability to make things by a lot. Since fixed costs like rent and wages have stayed the same, this has caused serious financial problems. Price reductions brought on by the pandemic have severely strained the operations of service providers in the food, lodging, and tourism sectors that are involved in cultural identity-related activities. It is likely that the COVID-19 epidemic will cause long-term damage and have a big effect on global growth. The application of new technologies, such as information, communication, and communication technology, to facilitate administrative reforms is known as digital transformation. Numerous studies that were conducted during the COVID-19 pandemic demonstrate the significance of modern technology in crisis management. Big data, artificial intelligence (AI), cloud computing, and other cutting-edge technology have been employed by the Indian government to identify pandemics, track infections, develop cures, and restore employment. Big data technology, for example, could help a lot when it comes to tracking and looking for pandemics in real time. With the help of digital software, employees can work from home and have more freedom in how they do their jobs. In the past few years, the global economy has given the low-cost industry a lot of competition. No longer is it enough to make products faster, cheaper, and of higher quality to stay competitive. If SMEs want to keep the lucrative opportunities they have now in the coming decades, the business world needs to implement new systems of creative and "Digital" economic development. As in previous industrial revolutions, the digitization of SMEs should focus on the whole manufacturing and supplier chain, not just how goods are made and how the

processes are managed. The digitalization of small and medium-sized businesses (SMEs) needs to help solve global problems like sustainability, resource and energy conservation, and it also needs to boost productivity. Sharing data makes everyone in the manufacturing process work faster and better. The supply chain is becoming more flexible, open, and global, while the customer experience is becoming more tailored to each person (B. Particularly, the fourth industrial revolution's return to individuality must be accomplished at that time (Hartbrich, 2014). To efficiently respond to customer demands and produce the most recent version in smaller batch sizes (Spath et al., 2013). Industry 4.0 aims to integrate larger-scale production processes that are more effective and efficient into an industrial context where items are created using methods that are specific to people and customers. The creation of individualized consumer items at costs akin to those of mass-produced commodities is referred to as mass customization. The concept of Industry 4.0 offers a framework for replacing current systems that are focused on centralized decision-making procedures and strict restrictions on particular value-added measurements. Flexible, reconfigurable production and distribution systems with responsive and collaborative decision-making processes replace SME frameworks. The development of small and medium-sized enterprises is recognized as a key factor in India's economic expansion. Small- and medium-sized enterprises (SMEs) must adapt to these technological advances and recognize their value in helping them access new markets and expand their businesses. 80% of global economic growth is directly attributable to small and medium-sized businesses (SMEs). Despite this, DT offers employers a fantastic opportunity to circumvent its drawbacks. Various restrictions on accessibility, affordability, and connectivity make it easier for agribusinesses to adopt technologies through the internet, smart phones, digital skills, and other interconnected devices. There are a number of restrictions on accessibility, connectivity, and cost that make it more difficult for people to adopt DT via the internet, mobile

phones, digital skills, and much more interactive for agricultural purposes, despite the fact that DT offers employers a great opportunity to circumvent its disadvantages. As a result of the digital revolution, the doing industry has changed course. This statement has generated a great deal of enthusiasm and resulted in a significant transformation of the entire manufacturing procedure, from product development to distribution. The Indian SME/MSME sector is vital to the nation's economy and faces intense competition from multinational corporations or, to put it another way, when asked about their livelihood in light of that long-term goal, they feel like tiny fish in a huge ocean. The goal of market competition is to make it difficult for SMEs. If the company wants to address these issues, they will need to make an appeal to their customers. The main reason for this suggested method is that DT is widely used worldwide. The digital industry has employed more than a million people. This helped small- and large-scale industries develop the goods and services that people needed, as well as increase the creation of business models. Nevertheless, the COVID-19 era has been better for consumers. This is due to a decrease in spending on social activities, travel, and eating out due to an increase in people eating at home. Undoubtedly, there has been a significant impact on the world economy. According to a report by the first quarter's GDP decline in the Eurozone was 3.8%. In Italy, Spain, and France, this represents the biggest decline since records have been kept, which ranges from -4.7% to -5.8%. The US economy suffered even greater damage as a result of COVID-19 because it contracted by 1.2% in the first quarter, the most since the financial crisis (PWC, 2020). Although the Office for National Statistics (ONS) reported that the monthly GDP estimate for March and April 2020 declined by 10.4%, this is the largest fall ever recorded, the decline in outputs in the UK economy has been around 2% (ONS, 2020). The Indian economy's overall growth depends on SMEs, but they have unrealized potential as an engine of growth. As the primary constraints for SMEs, inadequate access, technology,

ignorance, a lack of technical skill, the market, and finance have all been identified. The development of Industry 4.0 increases the challenges already faced by MSMEs in the Indian context, where the growth of SMEs is constrained by a number of obstacles. The Indian government has launched a number of initiatives to encourage the adoption of Industry 4.0 principles. The adoption of industry 4.0 is anticipated to be crucial to the development of SMEs.

Literature Review

Germany first developed Industry 4.0 in 2011 as a proposal for the creation of a new German economic concept based on high-tech strategies (Mosconi, 2015). According to Roblek et al. (2016), the fourth industrial revolution is characterized by complete automation and digitalized processes in a progressive interconnected environment. The development of Industry 4.0 has been significantly aided by the internet era and disruptive technology. It will give large MNCs in India a competitive edge unless their suppliers, who are typically SMEs, have proper guidance, involvement, and interest in implementing or changing their production. The difficulties SMEs had implementing Industrial 4.0 practices, as well as their readiness and awareness for doing so, were studied by Suresh.N et. al. in 2018. He conducted case studies on 5 SMEs in India and discovered that they are capable, willing, and able to recognize challenges when attempting to implement Industry 4.0 practices in their business.

Liang et al. (2016) looked into how small and medium-sized business (SMEs) owners pushed for digital transformation within their companies. In this essay, the author attempts to develop a comprehensive theory on organizational transformation enabled by digital architecture. Industry 4.0 and recent developments have been reviewed by Stock and Seilger (2016), who also provide an overview of various opportunities for the manufacturing sector's transition to sustainable practices. A company's strategy and growth will be shaped by technological solutions like CPS, cloud-based platforms, artificial

intelligence, and the Internet of Things, allowing it to gather more insightful data for decision-making. In comparison to offline businesses, SMEs that are digitally empowered can quickly increase revenue, access a larger customer base, improve customer engagement, and reduce costs. Around 40% of the nation's total exports are thought to come from the SME sector. These numbers speak for themselves regarding the overall impact that SME businesses in this nation have on our economy. But as our economy has become more digitalized, the SME sector has begun to face significant challenges as a result of the SME sector's inability to keep up with the changes. For instance, consumers' preference for online shopping has grown significantly over the past few years, and this preference is expected to continue to grow in the future.

Various studies have indicated that by the year 2020, India could have up to 220 million online shoppers. Only 5 to 6 percent of SME firms have registered their online presence at the same time. The SMEs have been deprived of the potential increase in revenue through improved operational efficiency and a broader customer base due to their lack of adoption of digitalization in business practices. Therefore, the need to move SMEs toward digitalization has been recognized by the relevant parties, and the process of digital transformation for SME firms has begun to take shape. In order to stop the Covid-19 epidemic from spreading, governments throughout the world are simultaneously announcing regulations and putting action plans into place that include limitations (such as country lockdowns and temporary closure of commercial locations). These limitations have effects on how sustainably businesses operate, including reduced company activities, staffing-related HR problems, and supply chain disruptions. Small and medium-sized businesses (SMEs) are more negatively impacted by these constraints than are bigger, international companies. Since they frequently have fewer assets, a smaller capital reserve, and lower levels of productivity than larger companies, SMEs are actually the most vulnerable (OECD, 2020). In times of crisis,

small organizations and their leaders also encounter difficulties (Shane, 2011).

Due to their size and adaptability, they simultaneously investigate new prospects and create emergent company strategies (Shepherd & Williams, 2018; Davidsson, 2015). In the UK, SMEs make up 99.3% of all private sector companies, 47.8% of private sector jobs, and 33.2% of private sector revenue (Federation of Small Business, 2014). SMEs therefore have an impact on larger economies. The crises that SMEs face and how organizational players engage during crises have received little attention to date (Cucculelli & Peruzzi, 2020; Doern, Williams, & Vorley, 2016; Mayr, Mitter, & Aichmayr, 2017; Ogawa & Tanaka, 2013). More specifically, prior research has neglected the identification of appropriate leadership actions and strategies, as well as the effectiveness of those strategies based on the firm's capabilities, particularly in the context of SMEs (Appelbaum, Keller, Alvarez, & Bédard, 2012; Gruber, Kim, & Brinckmann, 2015; Randall, 2018). SME's use, among other things, digital technologies to deal with the effects of extreme occurrences and hence COVID-19 (DT). A few of these are, for instance, blockchain technology, big data analytics, collaborative and mobile technologies, and the Internet of Things with 5G and other next-generation telecommunication networks. The value generation process is cross-linked and digitalized by DTs.

The literature contains proof that the strategic deployment of DT can boost performance, productivity, and competitiveness (Bruque&Moyano, 2007; Chan, Teoh, Yeow, & Pan, 2018; Dibrell, Davis, & Craig, 2008; Kleis, Chwelos, Ramirez, & Cockburn, 2011). Companies should be able to experiment and comprehend how DT will affect existing and future business processes and models while also having the necessary organizational skills, culture, and talent (Kane, Palmer, Philips, Kiron, & Buckley, 2015).

Analysis & Discussion

Government initiative towards digitalization in SMEs:

The Indian government has been integrating and developing digital platforms to reshape offline marketplaces and support SMEs. Additionally, the government is working to improve MSMEs' technological literacy through programs like the Technologies Center Framework, which will encourage their use of cloud-based technology. Other programs supporting the digitalization of SMEs in India include Digital India, Start-up India, Innovation Fund, Skill India, etc. These are a handful of the efforts that are listed below:

E-Governance: E-governance is the use of information technology to offer government services, exchange data, and collaborate on separate stand-alone platforms amongst different levels of government, the general public, and businesses (G2B). The goal of e-governance involves boosting the public's trust in the government, eliminating corruption, strengthening the bond between the public and government, and promoting public participation. The government has been able to adopt numerous programs for the growth of the MSME sector thanks to e-governance.

A few of these are:

Udhyog Adhaar: All businesses must register with their local District Industries Center (DIC) in accordance with the MSME Act (2006). Due to the tedious paperwork required, a huge percentage of businesses in India do not register, making it impossible for them to take advantage of government programs. To facilitate simple registration and greater MSMEs' access to benefits under various Central/State government schemes, the Ministry of MSME announced Udyog Adhaar in September 2015.

Virtual Cluster: The website msmsecluster.in now offers Virtual Cluster web sites, which offer services like common application forms, credit scoring models, etc. and a platform for Industry-Academia connections. By the end of 2015,

25,530 MSME businesses, 212 academic institutions, and 121 domain experts had registered on the website Mazar Report (2016).

Employment Facilitation Portal: The National Institute for Entrepreneurship and Small Business Development (NIESBUD) established an online portal (www.niesbudtraining.org) that provides registration options for more than 125 trades/skills.

Digital MSME: The Government of India has introduced the Digital MSME Program. It revolves around three main topics: governance and on-demand services, digital empowerment of small businesses, and digital infrastructure as a utility to every SME. MSMEs that provide IT and IT enabled services (ITeS) are anticipated to benefit greatly from the initiative, which aims to ensure that citizens have digital empowerment through improved governance, on-demand services, and a stronger public IT infrastructure. According to a CRISIL review of 128 MSMEs evaluated, the average CAGR gained by MSMEs in the IT sector from 2012 to 2015 was roughly 23%. The Digital India program also emphasizes eliminating imports and boosting home manufacturing. Due to this, mobile device production in India surged from 60 million to 110 million units between 2015 and 2016, growing by 83% year over year.

Common Service Centre (CSC): CSCs, a key component of the Digital India program, aims to use technology to help citizens in the areas of governance, business, health, and education. To help small businesses gain access to the technological infrastructure required for business expansion, it is essential to ensure that these policies are consistently implemented across the country. 2.5 lakh Gram Panchayats will have CSCs by December 2016.

Impact of digital transformation on SMEs growth prospects

For SMEs to expand and boost their top line, modernizing digital technology and having an online presence can present significant opportunities. Engaging customers on a company

website or switching to an e-commerce platform can boost sales by giving SMEs access to new clients in domestic and international markets. Additionally, it enables business operations with flexibility in terms of timing, location, and delivery.

According to a Snapdeal study titled “Impact of e-commerce on SMEs in India,” an enterprise’s revenues may increase by about 51%. As a result, today’s SMEs are expanding due to e-Commerce. According to the study, 46% of SMEs have experienced a material increase as a result of implementing an online sales channel. Customers with a variety of buying habits also help spread business risk among different regions. The e-commerce sector’s rapid expansion has given the SME community opportunities that cannot be matched. Ability to reach a larger customer base SMEs can now explore new markets and compete with the bigger industry giants thanks to increased digital engagement.

E-commerce has made it possible for businesses in both urban areas and rural areas to connect and transact with customers all over the world. Due to a lack of knowledge, a lack of familiarity with other cultures, language barriers, and a limited view of the business world, SMEs frequently lack the abilities to enter international markets. Operating effectiveness Having access to e-commerce platforms enables SMEs to optimize operational and marketing costs like call centers, trade shows, and specific product advertising, thereby reducing overall spending.

According to a Snapdeal study, SMEs can reduce their marketing expenses by 60% to 80% overall. A higher level of customer engagement a deeper understanding of the customers provided by data analytics and business intelligence has given SMEs the chance to make better decisions. These businesses have previously been prevented from developing such capabilities due to the high cost of software and technologies. However, the development of cloud-based solutions and the premium model, in which the core functionality of software is offered without charge but additional features, virtual goods, or proprietary

functions may be subject to a fee, has allowed SMEs to expand their capabilities and improve the customer experience. Neglecting digitalization might not be a good idea.

Offline SMEs are swiftly realizing missed growth opportunities as a result of their absence online. In today’s fiercely competitive local and global market, it is critical to adopt digital technology tools and integrate one’s sales platform on a digital channel. Businesses that lack knowledge about their online presence or are slow to adopt digital channels may have a difficult time surviving in the current data-driven ecosystem.

The introduction of digital technology over the past several years has completely altered the corporate environment across various economic sectors. Digital technology has been adopted more slowly by Medium, Small, and Micro Enterprise companies, though. Even so, these companies have adopted more digital technology as a result of the compelling economic considerations and government enforcement in the shape of numerous plans and programs. There are over 6 crore MSME businesses in our nation, and historically, these businesses were subject to an informal credit system because they lacked access to a formal credit system. Many of these MSME enterprises have advanced toward adoption of a digital lending system in response to the government’s recent innovative measures, such as Digital India and GST (Goods and Services Tax), which will guarantee their access to simple and affordable financing. However, significant other economic factors like the drop in mobile data and phone costs have also aided in spurring MSMEs to adopt digital lending practices. By 2023, 85% of MSMEs will have more access to formal credit systems, predicts Boston Consulting Group’s Financial Institutions Practice. The adoption of digitization by MSMEs across other business aspects, such as sales, payments, logistics, ads, etc., is still in its infancy and needs to develop, since only 6% of MSMEs, according to a survey by Red Seer Consulting, had done so at the end of 2018. As of present, the process of digitization is being hampered by low

levels of awareness, a lack of talented people resources, adoption costs, etc.

Conclusion

The rapidly advancing digitalization of consumers is a major force behind the digitization of Indian business. As a result, data traffic has increased and the creation of new tech-based startups to take advantage of the growth opportunities has accelerated. With nearly 80 million employees, 45% of the nation's total manufacturing output, and 40% of exports, the small- and medium-sized business sector is essential to the growth of the economy. However, these sectors are unable to keep up with the economy's rapid digitization. By 2020, there will be 220 million online shoppers in India, growing at a compound annual growth rate of 18%. Unfortunately, less than 5-6% of India's 51 million SMEs have an online presence. We can draw the conclusion that digitalization significantly benefits India's small and medium-sized businesses. If properly embraced, the digital transformation will significantly benefit Indian MSME businesses in terms of both operational effectiveness and economic output.

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