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MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN INDIA: MOVING TOWARDS DIGITAL BUSINESS

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ABSTRACT

India is home to more than 50 million MSMEs, which contributes 45% of total manufacturing output and 40% in the export of Indian economy (CII Report, 2017). As digital platforms are transforming almost every industry (Reuver and et al. 2018) and this digital revolution creates wider scope to promote MSMEs participation in the digital era. Recent initiatives of the Government such as Digitalisation, Startup India, Skill India and Cashless India are encouraging to move towards digital business. Lack of awareness, inadequate infrastructure facilities, lack of finance, lack of digital literacy etc. challenges for MSMEs to move towards digital business. The study aims to understand different digital practices available to MSMEs that helps to shift towards digital business. The analysis of the study reveals that the growth of MSME is higher than the overall industrial growth. Therefore, the study recommends that the use of appropriate digital practices would address issues such as optimum production at appropriate costs and encourage them to compete globally. This paper is based on secondary data collected from different books, articles and online sources.

KEYWORDS: MSMEs, Digital Business, Digital Practices, Competitiveness.

INTRODUCTION

The Micro, Small and Medium enterprises are growing as a vibrant sector (Aruna, 2015) in the Indian economy. This sector is contributing in the economic and social development of the country (Subala, 2017; Venkatesh and Kumari 2018) and also in generating largest employment opportunities after the agricultural sector (Syal, 2015). It's contributing 45% share to the entire manufacturing output and 40% share to the export from the country (CII Report 2017). It consists of 36 million units employs over 80 million people (Kalyani and Sindhuja 2017). As per MSME Annual Report 2017-18, 31% MSMEs were engaged in manufacturing activities, while 36% were in trade and 33% in other services. Out of 633.88 lakh MSMEs, 51.25% (i.e., 324.88 lakh) were in rural areas and 48.75% MSMEs (i.e., 309 lakh) were in urban areas. As per MSME Annual Report 2016-17, this sector through more than 6000 products contributing about 8% GDP to the Indian economy. Micro and Small enterprises play the most important role in the employment creation and as well in generating income for poor and disadvantaged populations (Duncombe and Heeks 2002). These have emerged because of the leading employment-generating sector and have provided



balanced development across sectors (Jayalakshmi and Venkateswarlu 2018). It is good vehicle to achieve inclusive and distributed growth (Manikandan, no date).

Despite the sector's importance for industrialisation and employment generation, it is an opportunity for the entrepreneurs to penetrate into digital business. Today Covid-19 pandemic has affected this sector and manufacturers are facing a lot of problems. Despite the sector's importance for industrialisation and employment generation, it is an opportunity for the entrepreneurs to penetrate into digital business. As said by Kumari (2018), MSMEs have a set of opportunities in the digital transformation. Digital transformation as defined by Henriette and et al. 2016; Kohli and Johnson 2011 as a social phenomenon or cultural evolution and for companies as evolution or creation of the business model and different digital practices have potential to reform the entire nature of business. Digital transformation has changed the way of firms operate in industries, and it offers digital services such as online appointment scheduling by patients, remote access to patient health records and real-time emergency room wait times available via a website (Jones and et al. 2015). It is the prime movers of globalisation and digitalisation and it is very useful for MSMEs. The digitalisation would help India to compete with the established economies, generate employment and have a steady increase in GDP, providing socio-economic growth to the nation as a whole (Chandhari and Kumar 2015). As said by Shrekant Somany, Chairman, CII National MSME Council, 'MSMEs are a crucial pillar to the Indian economy and have been at 10% growth consistently'. It is essential to empower the MSME Sector to utilize their limited resources in an optimum manner. Therefore, MSMEs need to be educated to grab available opportunities. The digital platform and digital technologies allow businesses to target customers, allowing them to reach their objectives more quickly and cost-effectively. According to Bharadwaj and et al. (2013) digital technologies are the combinations of information, computing, communicating and connectivity technologies. Digital technologies such as mobile technologies, collaborative technologies and the Internet of things allow companies to enhance firms' performance (Henriette and et al. 2016). Hence, there are many challenges to reach these objectives, such as limited technological awareness, lack of digital literacy, lack of finance. Hence, it is important for business owners to aware of the focus on the digital practices available to business operations.

LITERATURE REVIEW

Bharadwaj and et al. (2013) in their article 'Digital Business Strategy: towards the Next generation of Insights' opined that digital technology strategy must be the firm's strategy in its functional level strategy. By adopting digital technologies, businesses can transform strategies, business processes, firm capabilities, products and services and also extends business networks. All the processes and functional strategies are encompassed under the umbrella of digital business strategy and digital resources. Finally, the study said that this is the right time to shift the businesses to the digital business to change the new shape of business.

Ardjouman (2014) examined factors hindering and possible solutions accessible in the adoption and use of technology for sustainable development of SMEs in Cote d'Ivoire. The study adopted a descriptive survey research design. The data was collected from 200 respondents through questionnaire. The respondents included 50 senior executives, 50 middle-level managers and 100 workers in Abidjan city. The findings of the study expose that there is a high level of awareness of the significance of technology in the management of SMEs; ICTs and other technologies can be mainstreamed into SMEs development agenda and that technology is a true instrument for sustainable development of SMEs in Cote d'Ivoire. These finding revealed that CEOs and workers of SMEs have positive perceptions towards adoption and use of technology.

Habeeb at el. (2018) focused on the various industrial sectors affected by digitalisation. It was observed in this study the various challenges faced while implementing and digitalising India are digital literacy, privacy and security, cybercrimes, no change in mindsets etc. The study analysed the report of Booz and Company that 0.5% will increase in GDP per capita for every 10% increase in digitalisation. In comparison, advanced digital economies show a 0.62% increase in GDP per capita for every 10% digitalisation increases. The study found that the majority of India is illiterate in terms of digital literacy.

Therefore, government should take advanced steps to eliminate digital illiteracy by providing awareness programmes/campaigns.

Ikrama and Ahmed (2018) discussed the affect of digitalisation on Micro and Small Business enterprises of India by using both primary and secondary source of data. Primary research is focused on 10-12 enterprises of Hyderabad city. The study was observed that enterprise owners lacked awareness in understanding the huge benefits of digitalisation and also afraid to register with Udyog Aadhar. As per the study, owners of these enterprises had insufficient digital skills. Out of 10 enterprises, only two enterprises were offline, four were having websites and corporate emails Ids and three were connected in the sense that they were using social media and e-commerce. The study suggested that hands-on digital strategy would help them in achieving their business goals.

Saoudger and Bhujbal (2018) highlighted the Government schemes of cashless transactions for merchants, its problems and benefits and use pattern of the cashless system. The study based on descriptive and analytical research by using both primary and secondary sources of information. Aadhar cashless merchant App, POS machines, cashback scheme for using BHIM App etc. scheme implemented by government. Cost, digital infrastructure, illiteracy, security, unawareness of uses of cashless system, language barrier etc troubles are facing by merchants while using the cashless platform. The study suggested that government should endorse and enhance the advertisement of cashless transactions, it will be helpful for illiterate people and also offer good quality digital infrastructure with offline payment facility.

Rathi and Arora (2019) attempted the study to determine the reasons for not implementing digitalization in SSIs in Ghaziabad region, UP, India. The study is based on primary data collected from 36 small and medium companies located at Ghaziabad. Descriptive statistics are used to analyze the data. High cost, lack of top management support, lack of appropriate technology, lack of training and lack of expertise were the most important reasons for not adopting digitalization. The results are confined to limited sample units only. The interpretations are based on information received from the respondents. Hence there is a scope for further study for micro, medium and large level firms.

RESEARCH GAP

India is the fastest-growing economy in the world (Raj and Aithal 2018), and the concept of digitalisation is rapidly growing in India. It is swiftly developing in the country. With the review of literature, it can be seen that most of the studies have focused on the importance of digital platform and challenges faced while implementing digitalisation. From the study, it was found that only a few studies have been carried out on various initiatives of government which is helpful to shift towards digital business. This paper sheds light on the adoption of digital practices available to MSMEs to shift in the direction of digital business, which has so far received little research attention.

STATEMENT OF THE PROBLEM

Despite the success of MSMEs, presently facing different challenges which are hindering to their growth. Lack of awareness, Problem of finance, lack of access to markets, high transaction cost, shortage of skilled manpower, lack of digital literacy, inadequate exposure to the international environment, poor adaptability to changing trends, inadequate R&D etc. Adoption of digital practices is a mean to face all these problems. To overcome these problems and to enhance to access to new technologies, it is crucial to move them to digital business. Hence, digital practices are essential for the development of MSMEs in India. This paper is an attempt to highlight the different digital practices available to MSMEs, which is helpful to move towards digital business.

OBJECTIVES OF THE STUDY

The following are the objectives of the study:

- To know the concept of MSMEs and digital practice.
- To describe the growth of MSMEs in India.
- To analyse the different digital practices available to MSMEs in India.

- To investigate the challenges while implementing digital practices in MSMEs in India.

METHODOLOGY

The study is based on secondary data which are collected from various sources such as research articles, Journals, Newspapers, publication from the Ministry of MSME, RBI website etc.

MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

In the provision of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises have defined as:

Table-1

MANUFACTURING SECTOR	
Enterprise Category	Investment in plant and machinery
Micro Enterprises	Does not exceed 25 lakhs
Small Enterprises	More than 25 lakhs rupees but not exceed 5 crore rupees
Medium Enterprises	More than 5 crore rupees but do not exceed 10 crore rupees
SERVICE SECTOR	
Enterprise Category	Investment in plant and machinery
Micro Enterprises	Does not exceed Ten Lakhs rupees
Small Enterprises	More than Ten Lakhs rupees but not exceed two Crore rupees
Medium Enterprises	More than two Crore rupees but not exceed five Crore rupees

Source: MSME Annual Report 2017-18.

The investment in plant and machinery is the original cost, excluding land and building and other items specified in the notification.

On 13th May, 2020 Government has revised the definition of MSMEs based on their composite criteria i.e. investment as well as Annual Turnover. In the case of revised definition, distinction between manufacturing and service sector to be eliminated.

Table-2

Classification	Micro	Small	Medium
Manufacturing and services	Investment less than Rs. 1 Crore and Turnover less than Rs. 5 Crore.	Investment less than Rs. 10 Crore and Turnover less than Rs. 50 Crore.	Investment less than Rs. 20 Crore and Turnover less than Rs. 100 Crore.

Source: Government of India Bulletin, 13.05.2020

The main motive behind this is to end the difference between manufacturing and service sector.

CONCEPT OF DIGITAL PRACTICE

The word '**Digital**' describe "electronic technology that generates, stores, and processes data in terms of two states i.e., positive and non-positive. Positive is denoted by the number 1 and non-positive denoted by the number 0. Thus, data transmitted or stored with digital technology is expressed as a string of 0's and 1's" (<https://whatistechtarget.com/definition/digital>). As per techopedia in digital technology, "data is transmitted and stored as strings of zeros and ones, each of which are referred to as bits. These bits are grouped mutually into bytes to represent data such as numbers, letters, images or sounds".

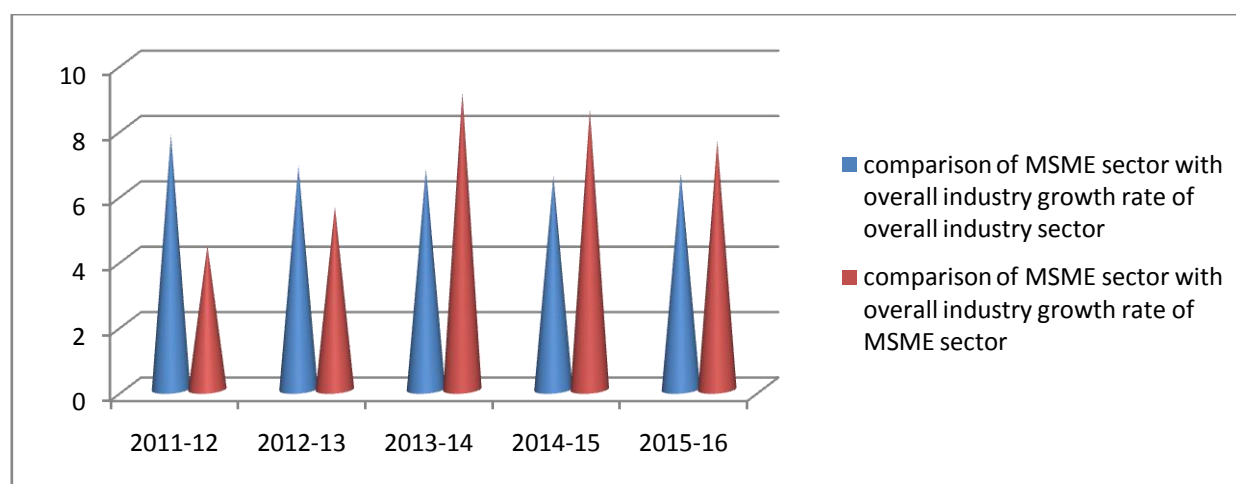
According to dictionary, the word 'practice' means the "actual application or use of an idea, belief, or method, as opposed to theories relating to it". According to Business dictionary, "practice is a method, procedure, process or rule used in a particular field".

Therefore, the term '**Digital Practices**' relates to any technology that helps to produce, generates, store, access and communication the information. Ex: computers, laptops, smart phones, internet access, usage of internet banking, business websites, emails, online payment system, social media etc.

According to us, Digital practices in MSMEs relates any technology or equipment or application used in the enterprise that provide benefits and also helps to manage the enterprise's information.

GROWTH OF MSMEs IN INDIA

The MSME sector is generally regarded as an engine of economic growth (Ayanda and Laraba 2011) and having a key role in job creation in economically developing countries. The sector also helps the economy by promoting sound development of industries across all regions of the nation. The main benefit from the sector is to provide potential employment at low capital cost. As per the Report of the Expert Committee on Micro, Small and Medium Enterprise, this sector account for about 90% of businesses and more than 50% of employment worldwide. The below chart shows that growth of MSME in comparison with overall industrial sector during the last 5 years. From the recent past 3 years, the growth of MSME sector is higher than the overall industrial growth.



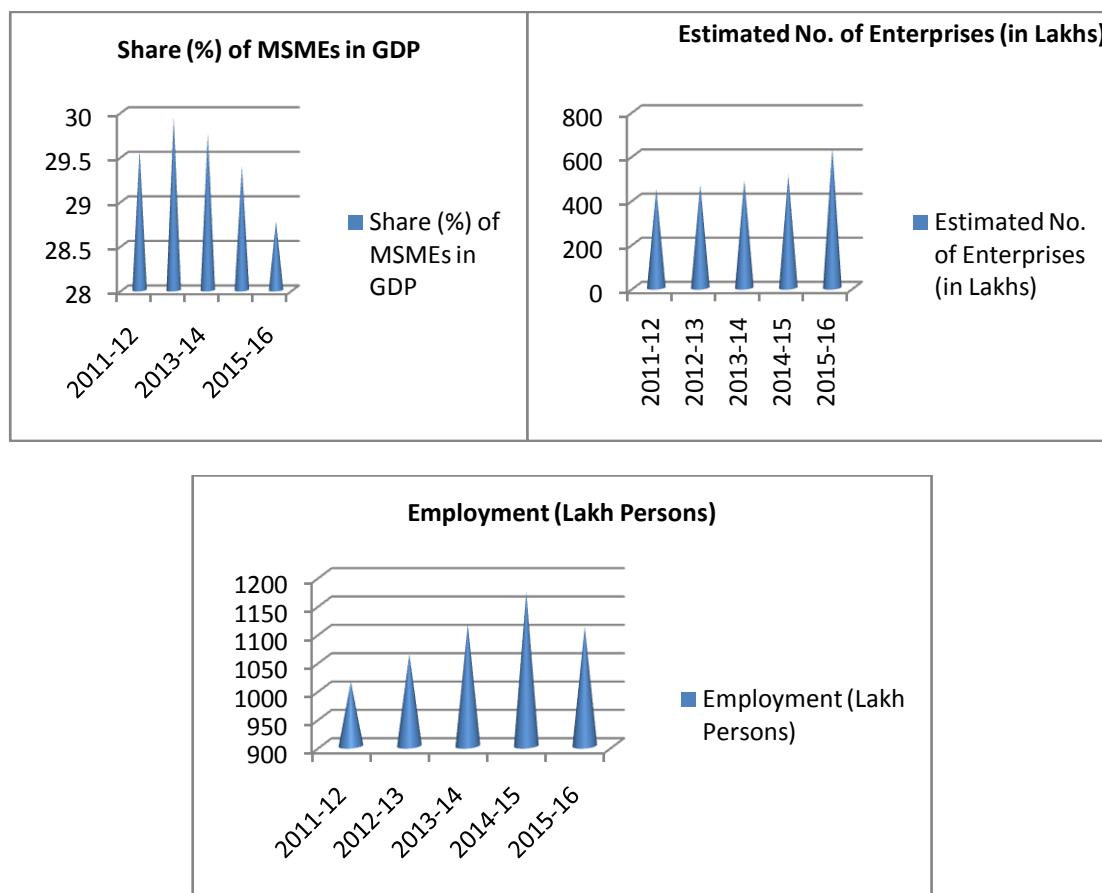
Source: Report of the Expert Committee on Micro, Small and Medium Enterprise
<https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=924>

Micro, Small and Medium Enterprises (MSME) sector is the largely energetic and vibrant sector promising high growth potential for the Indian economy. The Micro, Small and Medium Enterprises (MSMEs) Sector contributes widely to the Indian Economy in terms of Gross Domestic Product (GDP) and Employment generation. Table-1 shows the data about MSMEs contribution to the Indian economy.

Table 3: Contribution of MSME Sector in terms of GDP, Number of enterprises and employment

Year	Share (%) of MSMEs in GDP	Estimated No. of Enterprises (in Lakhs)	Employment (Lakh Persons)
2011-12	29.57	447.73	1012.59
2012-13	29.94	467.56	1061.52
2013-14	29.76	488.46	1114.29
2014-15	29.39	510.57	1171.32
2015-16	28.77	633.92	1109.89

Source: MSME Annual Reports

Figure: 1 Growth trend in employment, number of working enterprises and GDP.

Source: MSME Annual Reports

From the above, it represents the MSME sector has shown consistent growth during 2011-2016 in terms of number of enterprises. The graph obviously showcases the increase in the number of working enterprises over the last years with a parallel growth in the number of people employed in the sector from 2011-12 to 2014-15. As per the MSME Annual Report 2017-18, there are 633.88 lakh enterprises providing 28.77% of share in GDP to the Indian economy. It provides employment to 1109.89 lakh persons, which accounts for around 97% of total employment in the sector. As per the MSMED Act 2006, MSMEs used to register the file Entrepreneur's Memorandum (EM) at DICs prior to starting an enterprise. Since Sept. 2015, intending to support ease of business and paperless administration and online system under Udyog Aadhar Memorandum (UAM) based on self-declared information has been introduced without registration charges. As per Udyog Aadhaar website, 21,96,902 MSMEs were registered to Entrepreneur's Memorandum (EM) during the period 2007 to 2015. After introducing UAM (i.e. from Sept. 2015 to 2nd March 2020) 88,76,355 MSMEs are registered. The figure shows that MSMEs in India is moving towards digital business.

ANALYSIS AND INTERPRETATION ON DIFFERENT DIGITAL PRACTICES AVAILABLE TO MSMEs IN INDIA

Today, MSMEs across the world are focusing on adopting appropriate and innovative digital practices to build their path of competitiveness. The digital practice is an important tool which effects on business operations of MSMEs. Digital tools like computers, laptops, smartphones, internet access,

SMS, electronic mail, e-Wallets, usage of internet banking, business websites, online payment system, and Social media can be used in business operations. According to Internet and Mobile Association of India (IAMAI), India is the second-largest internet users after china in the world. According to the Global Digital Report, 41% internet users (around 3.49 billion users) are connected through the internet around the world. Among them, India is 2nd largest internet users with 462.12 million after China (731 million users). According to the Global Digital Report 2019, there are more than 5.1 billion people around the world using mobile phone. Here, showing the report of digital usage in the world.

Total population	7.697 billion
Unique mobile users	5.110 billion
Internet users	4.437 billion
Active social media users	3.499 billion
Mobile social media users	3.429 billion

Source: Global Digital Report, 2019

On the other hand, the Ministry of MSME has taken number of initiatives to promote digital practice in terms of launching various schemes and programmes. It helps MSMEs to become competitive by upgrading the latest technologies. These are; Udyog Aadhaar Memorandum (as per Ministry of MSME there are 87,20,051 MSMEs have registered as on 13th Feb. 2020), MSME Samadhan (As per MSME report 8602 applications were filed by MSEs involving total amount of Rs. 2368.38 Crore in MSME Samadhan portal up to Sept, 2018), MSME Sambandh (So far 126 CPSEs have reported a total annual procurement target of Rs. 1,18,848.19 Crore during 2018-19), MSME Sampark (in the year 2018-19 21,007 passed out trainees and 4483 recruiters have registered on this portal) MyMSME platform, Digital MSME, Government e-Marketplace (GeM), One Crore in 59 Minutes Scheme, MSME DATA BANK, National SCST Hub, Zero Defects, Zero Effect Scheme, Credit Linked Capital Subsidy Scheme (CLCSS) for technology up-gradation of MSMEs, Intellectual Property Facilitation Centres for MSMEs etc. To get the benefit of these schemes, again MSMEs have to go through digital platform. According to this analysis, we can observe that only few MSMEs are utilizing these schemes. If all MSMEs utilize these schemes, then it is helpful to MSMEs to move towards digital business.

CHALLENGES FOR MSMEs TO MOVE TOWARDS DIGITAL BUSINESS IN INDIA

The main challenges for MSME that hinders to move towards digital business in India:

- Lack of availability and accessibility of fund (Singh,2017; Aruna, 2015; Maiti and Kayal 2017; Dinesh 2018)
- Lack of skilled manpower (Aruna, 2015)
- High cost or non-affordability of innovative technology (Aruna, 2015)
- Lack of awareness of different digital practices (Aruna, 2015)
- Low digital literacy (Kaul and Mathur 2017)
- Inadequate Infrastructure (Aruna, 2015)

CONCLUSION

Finally, it can be said that MSMEs play a vital role in Indian economy, and it contributes to the manufacturing output, employment and exports activities. Government is playing its role towards achieving it. Digital India, Skill India, E-governance etc. are some steps taken by the government for this purpose. We understand that the use of internet and connected devices are now an integral part of businesses and has made businesses more competitive during this pandemic. Digital practices have empowered businesses with great ease of doing business. But there are several challenges faced by MSMEs which hinder the growth opportunities. Hence, it is the responsibility of the government to create more awareness program to implement digital schemes by MSMEs and at the same time, government should provide more aid packages and incentives to manufacturers. Adoption of digital

practice is considered to be a means to MSMEs to compete in an international market. Today Information Technology has become the cornerstone of every successful business and digitalisation has forced businesses to think beyond their traditional methods of doing business. Through digital practices, MSMEs can transform their business into digital business and it will be helpful to improve their efficiency, performance, closer with owner and employees and also to attract the customers at the global level. Finally, the study recommends that Government, business organisations, and individuals need to work together to adopt digital practices and to move towards digital business in India MSMEs.

LIMITATION OF THE STUDY AND SCOPE FOR FURTHER RESEARCH

The study is limited to secondary data; there is further scope for conducting a detailed study by using primary data. A comparison of the impact of the adoption of digital practices on large industries and small industries can be examined.

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