iJRASET
International Journal For Research in Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 13 **Issue:** I **Month of publication:** January 2025

DOI: https://doi.org/10.22214/ijraset.2025.66282

www.ijraset.com

Call: 08813907089 | E-mail ID: ijraset@gmail.com

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 13 Issue I Jan 2025- Available at www.ijraset.com

Micro Small and Medium Enterprises: Driving Growth through Digital Transformation

Reshma Bright[1], Dr. Rani. L[2]
Research Scholar, Department of Commerce, Government Arts College, Thiruvananthapuram, Kerala
Associate professor, Department of Commerce, Government Arts College, Thiruvananthapuram, Kerala

Abstract: ***Digital technology has the potential to considerably benefit India's MSME sector if the new infrastructure receives widespread support from the government, solution providers, and, most crucially, users. In recent years, the digital landscape for organizations has evolved dramatically, and various aspects have developed that can begin to shape the contours of a strong digital ecosystem. The difficulties arise from dealing with a complex and diverse MSME market, which is dominated by micro companies at various phases of development and with varying levels of digital readiness. A digital ecosystem that delivers end-to-end solutions, from financial access, payments, operations, management, and even convenient skilling and knowledge sources, would be an encouragement for enterprises to fully adopt digital technology. This paper looks at the need for digital transformation in MSMEs and how it may help them grow. This paper takes a qualitative approach to the problem, examining it through a literature review. Building a digital ecosystem for MSMEs can transform India's MSME sector, according to the study. Among the critical insights needed to do this, efforts to enable small business digital transformation must include a wider understanding of the economy.***

Keywords: digital transformation, economic growth, Indian economy, MSMEs.

I. INTRODUCTION

MSMEs (Micro, Small, and Medium Enterprises) have long been regarded as the foundations of the Indian economy. With roughly 6.3 crore MSMEs in the country, the sector is the country's second-largest employer and contributes significantly to GDP. While MSMEs are a growing sector of the economy, most MSMEs are known to work at the grassroots level. In an increasingly digital environment, these homegrown enterprises demand strong financial backing and enough working capital loans, talent development, frequent training, and, most crucially, technological skill development and upgradation. Digitization must be integrated at every stage of the business cycle for Indian MSMEs to stay ahead of the curve. The Indian government has recently adopted many initiatives geared at the digital growth of MSMEs in recognition of this pressing need. Regardless, MSMEs have yet to fully embrace digital engagement. When it comes to running business operations, supply chains, and overall market presence, Indian MSMEs face unique obstacles. Finance management, sales and recovery management, workforce management, and other issues relating to operational infrastructure are some of the noteworthy challenges within this. More than half of India's MSMEs are located in rural areas. Rural India has a vastly different level of digital dependency and abilities than metropolitan India. While a large portion of the MSME sector has been slow to adopt digital, this is largely due to the fact that technology advancements have never been focused on the digital needs of consumers in Bharat's hinterlands. The foundation for a successful MSME tech ecosystem in India is mobile-first, user-centric, simple and intuitive apps with language support.

II. REVIEW OF LITERATURE

According to Antonizzi and Joshua (2020) as technology advances, businesses in many industries are realizing the value of digital transformation in ensuring their long-term viability. Sales, marketing, human resources, operations, finance, research and development, and customer service are among the corporate functions undergoing digital transformation.

Lungu et al (2021) highlighted the effects of the COVID-19 pandemic on entrepreneurial prospects, with a focus on the types of measures that can have a positive impact on entrepreneurship's future. The research included a review of the literature as well as multiple regressions to see how important variables influence new business prospects. The findings emphasized the pandemic's potential benefits to entrepreneurship, like digitalization and the ability to adapt to changing market configurations.

Gavrila and Ancillo (2021) used existing literature and quantitative research to examine the consequences and relationship between entrepreneurship, innovation, digitization, and digital transformation. The findings revealed that the epidemic spurred consumer habits, organizational innovation, and digital transformation toward long-term growth.

©IJRASET: All Rights are Reserved

The data also revealed how the pandemic hampered long-term business growth and influenced the future of business beyond the pandemic scenario, altering how society, businesses, and customers interact.

III. STATEMENT OF PROBLEM

The deadly coronavirus began the year 2020 all across the world. The pandemic had infected the whole planet by March 2020, and global supply networks had been seriously disrupted. Larger businesses throughout the world had significant resources in terms of technology, input materials, and technically competent personnel, as well as other means to maintain a work-life balance in a hybrid working environment. However, small businesses have suffered as a result of the epidemic, the unexpected shutdown, and regulatory and safety measures imposed in the aftermath of Covid-19. The MSME sector in India, which includes manufacturing, packaging, infrastructure, food processing, chemicals, the IT sector, and the service industry, has emerged as the economy's most dynamic source of growth. The MSME sector in India contributes roughly 45 percent of the country's exports and accounts for about 30 percent of GDP. About 11.1 crore people are employed by 6.3 crore MSMEs. Unfortunately, the MSME sector in India suffered greatly during and after the epidemic era due to a number of problems such as capital constraints, high costs of digital technologies, and a lack of expertise and awareness about appropriate digital technology.

The Indian government has stepped forward to grant soft loans with a longer repayment term and a higher credit limit to help MSMEs during the pandemic crisis. MSMEs, on the other hand, must re-strategize their total value proposition by enhancing product quality and lowering product costs. They must also plan for different functions like production, marketing, sales, and finance. To extend the reach of consumers and suppliers in the market, a strong digital ecosystem must be built. MSME enterprises must now reinvent their businesses by using the latest technology after a hard effort to restore business in 2020 and 2021. Despite the higher initial cost of technology and early resistance from stakeholders to technology adoption, it will prove to be a turning point in MSMEs' business success in the medium to long term.

IV. OBJECTIVES AND METHODOLOGY

This paper looks at the need for digital transformation in MSMEs and how it may help them grow. This study is descriptive in nature, and it depends heavily on secondary data gathered from journals, books, study reports, research dissertations and theses, periodicals, and websites. Data was acquired from MSME development commissioner reports, Census reports on MSME, MSME development institute yearly reports, MSME handbook, IAMAI reports, and websites.

V. THE TRANSFORMING PHASE OF MSMES IN INDIA

Rising above the pandemic threat, small businesses in India are forging ahead on the digital front. In order to survive in the rapidly changing MSME sector, they are rethinking digitalization strategies in order to achieve business transformation in these new normal times of change. The MSME sector in India is rightly regarded as the driving force or backbone of the Indian economy. While accounting for 30% of the country's GDP, the sector has also created a large number of job opportunities, helping to boost overall economic activity. Last year, however, was different. The pandemic has reduced the sector's contribution to GDP by 5%, according to CRISIL Research. As a result, it has become critical for a small business in India to implement a relevant digital transformation strategy and, as a result, forge its own path to digital business transformation. During this stage of evolution, Indian MSMEs must rethink their success strategies by embracing the digital growth mechanism.

A. Digitization to Digitalization- The inevitable path to business transformation

The evolution of Indian MSMEs began long before the pandemic. As a result, nearly 97 percent of mid-market businesses are already leveraging innovative IT infrastructure and processes, as well as experimenting with cloud-centric business models. Now is the time for small business owners to reimagine their business models in order to re-invent newer and more innovative methods of achieving their business objectives in the face of digital disruption.

Digitization is the process of automating traditional business tools and techniques, thereby simplifying processes while lowering costs and increasing efficiency. Digitalization, on the other hand, is the process of using digitised tools and information to create innovative ways of doing business in order to maximise business potential through reduced effort and increased productivity.

B. Digitalization for MSMEs

The rise of MSMEs in India is hastening the transition to digitalization. Digitalization is a process that uses digital technologies to transform a business model and create value-creating opportunities for growth and progress.

©IJRASET: All Rights are Reserved | SJ Impact Factor 7.538 | ISRA Journal Impact Factor 7.894 |

ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 13 Issue I Jan 2025- Available at www.ijraset.com

In the midst of a digital revolution, India is on its way to becoming an Internet-first country. Digitalization of businesses is the first step toward developing a business transformation strategy, which has now become a necessity for India's rapidly evolving MSMEs. There are a number of areas and opportunities where Automation and Digital Transformation are both affordable and feasible for MSMEs to stay ahead of the curve.

1) Production and Planning

Production is the most important process for any manufacturing company. It is the most important cost centre for any manufacturing company. Many factors, such as poor quality, low productivity, high maintenance, inadequate safety, monotonous work, and so on, consume a significant amount of money and time.For MSMEs, there are numerous opportunities ranging from simple sensor solutions to partial automation to full automation. Appropriate solutions can be chosen based on budget and technical capability. There is a wide range of technologies available, including simple sensors, CNC programmed machines, automated cutting and welding machines, and various robotics solutions.

2) Design and development

Product design and development have never been so quick and smart. Many different types of design software are available as standard tools to help with the design process. AI and ML-powered software is now available to reduce the steps from mock-up to specifications. They can anticipate gaps in a designer's thinking and correct errors like inconsistent alignment.3D printing facilities for prototyping have become more widely available and less expensive. 3D printers are becoming increasingly popular for mass production of specific items. 3D printing technology is an affordable solution because of its ability to synchronize with design software and accommodate any awkward shape efficiently and effectively.

3) Plant Maintenance

Although most manufacturing companies overlook the importance of plant maintenance and maintenance costs do not directly contribute to product costs, they are significant. The majority of MSME businesses only practise breakdown maintenance. That cost is relatively high, not only in terms of money, but also in terms of production delay, delayed delivery, poor quality, machinery damage, and, most importantly, human safety. With technological advancement, maintenance activities are predictable well in advance and can be scheduled accordingly to avoid any type of damage to machines and humans. If full-fledged and costly predictive maintenance is not feasible for MSMEs, the cost of maintenance can be reduced by attaching a few sensors to plant machinery and synchronizing them.

4) Marketing and Promotion

Despite a very good product in terms of price and quality, reaching the target customer is difficult. Many small businesses with whom I have close ties believed that word of mouth and customer loyalty were the most important tools for business growth until they realized the importance of branding in a competitive market. Traditional marketing methods are ineffective in today's global marketplace. A company's brand loyalty must be built through appropriate marketing and branding strategies. With changing market dynamics and competition, every organization must establish a strong brand position in their respective market. It is difficult to sustain and grow in the current digital era without appropriate use of digital technologies and social media strategies.

5) Account and Finance

These functions also include many repetitive tasks that are prone to human error as a result of multitasking and can cause delays due to overworked accounting professionals. There is a plethora of software available solely for accounting and finance management. To increase overall efficiency, a variety of standard and customized software can be developed to synchronize other functions such as sales and production to accounts. This results in significant cost savings.

6) HR and Payroll Management

To motivate employees to provide double the productivity, human resources are the most important asset for any business. The most underutilized functions in the MSME industry are recruitment, induction, training, and payroll management. The indirect cost of manpower is too high in the MSME sector due to the lack of an autonomous HR management system. This includes hiring costs as well as lost productivity as a result of insufficient and inappropriate training. Many automated HR and payroll management software solutions are available at a reasonable cost and are simple to use by staff with only a moderate level of computer proficiency.

©IJRASET: All Rights are Reserved | SJ Impact Factor 7.538 | ISRA Journal Impact Factor 7.894 |

This will help to reduce the workload on HR and administrative staff while also providing employees with transparency about the fair management of their receivables and other facilities.

7) Customer Support

Without satisfied customers, no business can survive. A satisfied customer is the best marketing tool for repeat business and can spread the word about the company and its products. This critical function is managed manually and in an organized manner by MSME businesses. When the number of customers is small for capital and high-value products, proper customer support can be managed manually. However, in the case of the company, where there are a large number of customers, it is difficult to retain and regain customers if customer queries and complaints are not responded to and addressed in a timely manner. It is critical that customers can easily contact the seller with any questions or complaints.

For customer support functions, a variety of AI-based solutions are available. The MSME company can choose the appropriate digital solutions based on its customer base. The following are some popular tools for assisting with this function:

a. Omnichannel communication support
b. Unified agent desktop
c. Live chat support.
d. Self-service portal.
e. Customer sentiment analysis, and
f. Up-to-date knowledge base.

C. Challenges for MSMEs on the Path to Digital Transformation

High setup costs: Changing an established business setup and shifting it to digital platforms requires a significant investment.

Integration complexity: There are some areas that require human intervention; integrating digitization in all of these areas becomes an issue.

Inadequate personnel to manage the digital platform: Businesses will be unable to benefit from the digital revolution if their workforce is insufficient to bridge the gap between digital understanding and execution. It is not necessary that the present staff, which is used to doing business in a traditional manner, is similarly skilled in dealing with the digital environment.

VI. CONCLUSION

Despite the hurdles mentioned above, India's MSMEs are rapidly adjusting to the digital manner of doing business. According to a Cisco India survey, about 13% of MSMEs in the Asia Pacific area have gone to the advanced phases of digital transformation, while 31% are still in the early stages. As a result, effective digitalization strategies are required to assist developing firms differentiate themselves from the competition and expand.

Digital transformation, when properly executed, may help India's growing MSMEs reimagine their distinctive business models and redesign a value-driven framework. It can also help boost staff productivity by implementing long-term skill training methods. As we move forward into the new normal, small firms must reinvent their business strategies to ensure inclusive and long-term benefit for all stakeholders.

In today's digital-first world, technology-driven software such as Enterprise Resource Planning is required to give complete solutions for rising small enterprises in India to deploy efficient business technology in order to deliver effective and relevant solutions. ERP is a comprehensive digital solution that enables MSMEs in India to upgrade their business model for increased efficiency and strategic planning in order to achieve stated business goals via the use of cost-effective, growth-oriented technology. The ERP paradigm, once properly implemented, is certain to assist small firms in making a significant difference through strategic digitalization of digitized activities. The fast digitalization of Indian customers has resulted in the digital transformation of MSMEs in India. As a result of this huge shift in customer behaviour, developing small businesses across the country are seeing expanded growth potential.

Digitalization of the MSME sector's service and manufacturing segments can aid in realizing the enormous potential of digital processes. The fast-growing sector may improve the efficacy, profitability, and overall growth of MSMEs in India by introducing cost-effective and efficient technologies.

This, in turn, will undoubtedly contribute to the benefits of the Indian economy as it transitions to a more normal future by maximising customer benefits and satisfaction.

©IJRASET: All Rights are Reserved | SJ Impact Factor 7.538 | ISRA Journal Impact Factor 7.894 |

REFERENCES

[1] Antonizzi, Joshua, and Hanlie Smuts. 2020. The Characteristics of Digital Entrepreneurship and Digital Transformation: A Systematic Literature Review. In Responsible Design, Implementation and Use of Information and Communication Technology. Lecture Notes in Computer Science. Berlin/Heidelberg: Springer, pp. 239–51.

[2] Articles | Digital Transformation Strategies for MSMEs in 2022. (2022, January 4). Industrial automation magazine. Retrieved April 16, 2022, from https://www.industrialautomationindia.in/articleitm/13138/Digital-Transformation-Strategies-for-MSMEs-in-2022/articles

[3] Buteau, S. Roadmap for digital technology to foster India's MSME ecosystem—opportunities and challenges. CSIT 9, 233–244 (2021). https://doi.org/10.1007/s40012-021-00345-4

[4] Digital Transformation: Defining the rise and recovery of Indian MSMEs. (n.d.). Growth Matters Forum. Retrieved April 16, 2022, from https://www.growthmattersforum.com/blogs/digital-transformation-defining-the-rise-and-recovery-of-indian-msmes

[5] Digital Transformation for MSME & Small Business Growth. (2020, November 5). Indifi Technologies. Retrieved April 16, 2022, from https://www.indifi.com/blog/msme-small-business-digital-transformation-for-growth/

[6] Gavrila Gavrila, Sorin, and Antonio De Lucas Ancillo. 2021. Entrepreneurship, innovation, digitization and digital transformation toward a sustainable growth within the pandemic environment. International Journal of Entrepreneurial Behavior & Research.

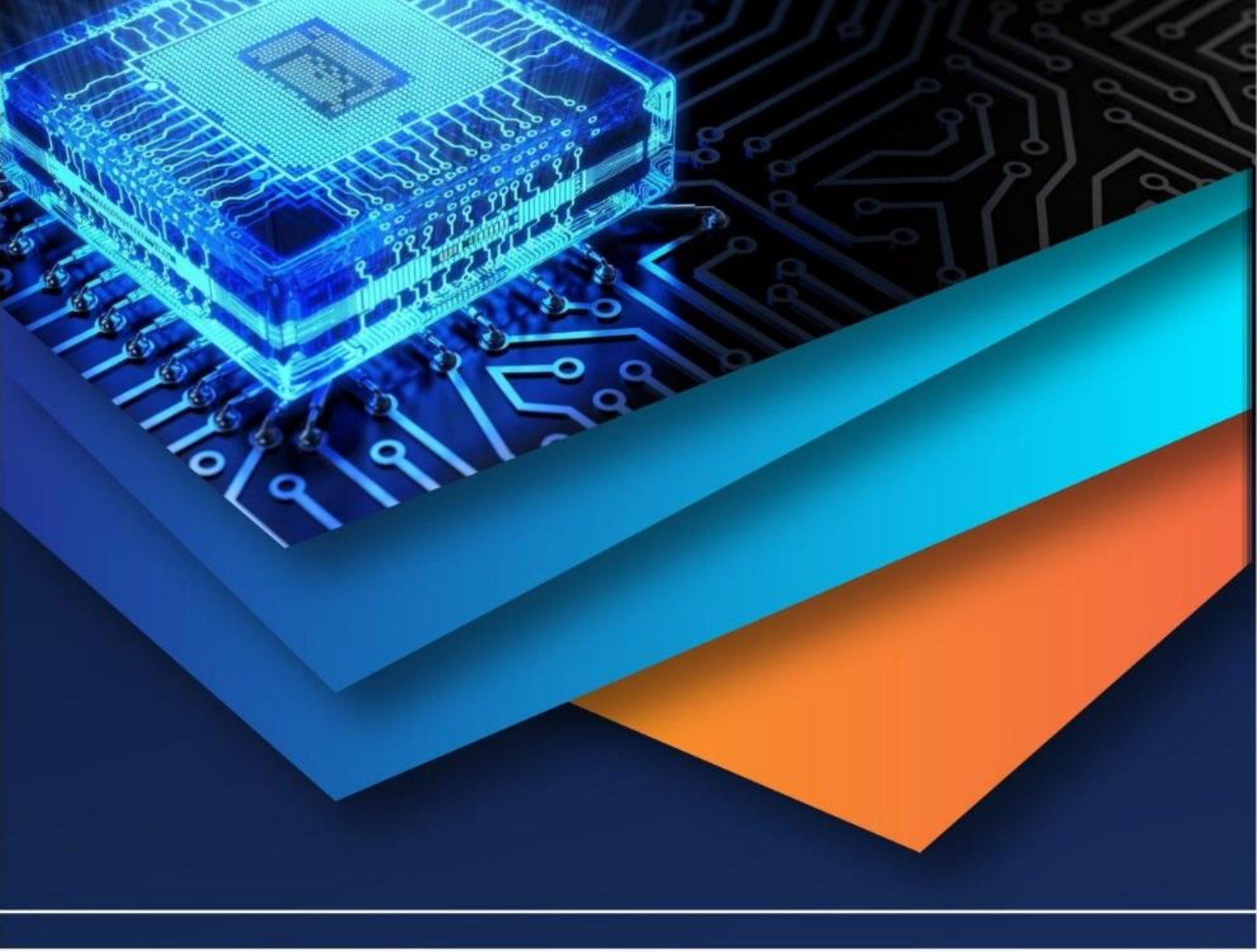
[7] Lungu, Anca Elena, Ioana Andreea Bogoslov, Eduard Alexandru Stoica, and Mircea Radu Georgescu. 2021. From Decision to Survival—Shifting the Paradigm in Entrepreneurship during the COVID-19 Pandemic. Sustainability 13: 7674

[8] MSME Digital Transformation | Emergence of Industry 4.0. (n.d.). Sixty One Steps. Retrieved April 16, 2022, from https://sixtyonesteps.com/msme-Digital-Transformation.html

[9] Naresh, R. (2021, September 3). Building tech ecosystem to enable the digital transformation of MSMEs in India. Times of India. https://timesofindia.indiatimes.com/blogs/voices/building-tech-ecosystem-to-enable-the-digital-transformation-of-msmes-in-india/

[10] Varughese, J. (2021, August 19). What digital tools must MSMEs embrace to survive and scale. YourStory. Retrieved April 16, 2022, from https://yourstory.com/smbstory/msmes-digital-transformation-technology-covid-19/amp

©IJRASET: All Rights are Reserved | SJ Impact Factor 7.538 | ISRA Journal Impact Factor 7.894 |



10.22214/IJRASET

45.98

IMPACT FACTOR: 7.129

IMPACT FACTOR: 7.429

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Call : 08813907089 (24*7 Support on Whatsapp)