

Study on Impact of Digital Transformation on MSME Growth Prospects in India

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ABSTRACT: *The Micro, Small and Medium Enterprises (MSMEs) sector has traditionally been the backbone of our economy and has served as key driver of different economic indicators. These MSME firms have also been a major contributor towards socio economic development of our country. However over past few years the MSME sector has started confronting few challenges, including country's shift to GST tax regime which have brought many of the MSMEs under indirect tax net and exposure to the increased competition. Such developments which have occurred in past few years have forced the growth rate of MSME sector to slow down. At the same time issues like lack of technological knowhow, inefficiencies in supply chain and difficulties in availability of funds are signaling the possibility of worsening the conditions for these firms. Therefore it is the need of the hour for MSMEs to improve upon their business prospects by adopting a slew of measures. One such measure is the adoption of digital technology enabled platforms. The digital transformation of MSME business is the one stop solution to challenges being faced by these firms. The same has been realized by the government, which has launched the "Digital MSME" scheme for this sector and also by different stakeholders, including banking institutions, which are providing training to enable MSME to overcome the hurdles in digital transformation. This paper attempts to study the impact of digital transformation on MSME growth prospects.*

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

Introduction

Over the last few years India's Micro, Small and Medium Enterprises (MSME) firms have undergone major unprecedented challenges, including the roll out of GST regime as well as increasingly expanding international competition. Such challenges have also thrown upon them the opportunity to jump on to the digital bandwagon to sweep through the challenging conditions. The MSMEs' inherent capability to grow coupled with the adoption of digital modes of doing business would certainly help in realizing the true potential of this sector. Traditionally, the SME sector has been one amongst the key drivers of Indian economy. In 2011, the contribution of SME sector into GDP of the country was 17 percent, which has been surging over the past decade and now it is expected to grow further and contribute around 22 percent into our economy by the year 2020. The SME sector currently has 45 percent of share in our country's overall manufacturing output and at the same time it also provides employment to 40 percent of the total workforce. The share of SME sector into country's total exports is estimated at around 40 percent. These figures are itself a testimony to the collective influence that country's SME firms exert on our economy. However in the recent times the rapid changes taking place in form of digitalization of our economy have started posing serious challenges for the SME firms, as these are failing to keep pace with the same. For example, the trend of doing online shopping has drastically increased among the consumers in past few years and this trend is poised to increase at a greater rate in future. Different researches have shown that the number of online shoppers in India would reach up to 220 million by the year 2020. At the same time there are only 5 to 6 percent SME firms which have registered their online presence. Such lack of adoption of digitalization in business practices by the SMEs has left them deprived of the potential increase in revenue through improved operational efficiency and broadened customer base. Therefore the need to put the SMEs on digitalization track has been realized by the concerned stakeholders and the process of digital transformation has started taking shape for SME firms.

Literature Review

Stockdale and Standing, (2004) studied the advantages and obstacles in adoption of electronic marketplace by SMEs and stated that the access to a broader range of markets is a critical factor in adoption

of Internet technology. They also concluded that the changing requirements of customers as well as suppliers also shape the adoption of IT technology by small firms.

Regan,S.A.(2005) examined the adoption as well as the use of E-commerce by Small and Medium Businesses and opined a greater rate of such adoption in forthcoming years.

Desai, (2006) observed the rapid changes taking place over the past few years due to global events and up gradations in technologies and its influence over small scale industries and suggested the required structural changes to be made in the small enterprises.

Patrick Y. K. Chau (2009) studied the adoption and factors behind it for Electronic data Interchange (EDI) by business firms. They concluded that the adoption depends upon multiple factors including readiness of organizational entities and external environment.

Rosli Mohamad, (2009) presented a conceptual study based on intensive review of past research works on adoption and usage of e-commerce by small firms across different countries and concluded his work in context of each of these.

Deepali Saluja (2012) studied the role of MSMEs in economic development of India and observed that the contribution of MSME firms is surging in upward direction and is significantly going to influence the shape of country's economy.

Mohanta et.al.(2017) studied the prospects of Digital India campaign and suggested that the required boost to the country's economy through contribution of MSMEs have to be supplemented by improved usage of digital technology.

Discussion and Conclusion

Over past few years the adoption of digital technology has changed the entire business scenario across different economic sectors. However, when it comes to the Medium, Small and Micro Enterprise firms, the adoption of digital technology has been at a slower pace. Though the compelling economic factors as well as enforcement from the government in form of various schemes and programmes has led to greater adoption of digital technology by these firms. In our country there are approximately 6 crore MSME firms and traditionally these were exposed to an informal credit system due to lack of access to formal credit system. With the government's recent revolutionary initiatives, like Digital India and GST (Goods and Services tax), many of these MSME firms moved forward towards adoption of digital lending system, which will ensure them the availability of easy and cheap credit. However major other economic developments, like decline in mobile data and mobile phone costs have also helped in triggering the adoption of digital lending practices among MSMEs. According to Financial Institutions Practice at Boston Consulting Group, this process will help increase the access to formal credit system among 85% of MSMEs by 2023. However the adoption of digitalization by the MSMEs across other dimensions of business, like, sales, payments, logistics, advertisements etc. is still in nascent stage and is yet to grow, because at the end of 2018 only 6% of MSMEs have adopted the digitalization, as per the report of RedSeer Consulting. As of now, low level of awareness, unavailability of talented human resource and cost of adoption etc. are the impeding factors in the process of digitalization. Apart from it, the absence of an understanding about the benefits that could be reaped through the use of technology, lack of guiding forces towards integration of technology and its institutionalization into the business, inhibitions towards upfront investment oriented costs have also been the causes that led to low adoption of digitalization among MSMEs. With changing times and emergence of favorable economic factors, like production of low cost communication technologies, easy accessibility to high speed 3G/4G networks and advancements in computing technology and government's promotional initiatives for SMEs have turn the tide towards adoption of digital technology by MSMEs in today's times.

In 2017, the government of India launched "Digital MSME Scheme" to help small industries make use of cost effective IT infrastructure to manage their business processes. Such an scheme is based on "Cloud computing", which provides MSMEs the access to internet for making use of technological solutions in different business processes and get these rid of setting up a separate in-house IT infrastructure. Another scheme, called "MSME Samadhan", is also in place to provide MSMEs an assistance in keeping track of the pending payments from different institutions. Such grievance redressal initiatives which are based on digital technology are certainly wooing the MSME firms to take a leap ahead towards adoption of digitalization. Similarly, the scheme called "MSME Sambandh" makes use of a portal that helps in tracking the procurement from MSMEs by government run public sector enterprises. All in all, the MSME firms are having a never before opportunity to embrace the digital transformation coupled with the availability of sound favorable ecosystem being built up by the current government. If adopted well in time, the digital transformation is going to give a big boost to Indian MSME firms, both, in terms of business efficiency as well as contribution to country's economy.

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