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A study on the contribution of digitalization to the growth of MSMEs in India

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Abstract

This paper explores a study on the contribution of digitalization to the growth of MSMEs in India. It is a common belief that the Micro, Small and Medium industry is very essential for the economic development of every country whether developed, developing or under-developed. The digitalization of a business does not, in fact, herald the launch of a brand-new line of business; rather, it transforms those that are already in operation to profit from conducting business in a more contemporary manner. The necessity, issues, and potential of digitalization for the small- and medium-sized business sector were examined in this essay. Secondary and primary sources were used to get the data. Data analysis and the identification of the correlations between variables used the Chi-square test. The findings, however, demonstrated that Small and Medium Enterprises are significantly and directly impacted by digitalization. A crucial factor in the expansion of economic activity is the use of ICT in SMEs. According to the study, digitalization has a big influence on how well SMEs perform overall in India, since it accelerates economic growth, lowers poverty, and gives small businesses possibilities to sell their products both domestically and abroad. However, there are some difficulties that MSMEs must overcome on their own, with assistance from the government.

Keywords: Digitalization, MSMEs, ICT, developed

Introduction

Digitalization has emerged as the key concept to consider in contemporary business situations. Virtual transformation is a big step for SMEs these days as many industries and agencies struggle to convert their current operations to a virtual model. However, with the introduction of new technology and its rising adoption, organizations should be focusing on advancing customer satisfaction, optimizing functional strategies, and expanding organizational structure. Small and medium-sized enterprises (SMEs) that are likely to be particularly modern are said to be confronted with economic, skill shortage, and financial troubling situations that have an effect on their boom, while conventional organizations that may be dealing with the virtual transformation system risk will be inclined to lose their competitiveness. Digitalization of an enterprise does not honestly constitute advent of a new commercial enterprise, however transforming the prevailing ones to take benefit of doing commercial enterprise in a new way. The frequency of applying the ICT tools by SMEs in India has remained pretty very low and this has resulted in the sluggish pace of financial boom and development. But, international competitiveness and the urge to stimulate financial boom are some of the essential elements for which marketers need to undertake ICT.

In a growing economic system like India, emphasis should be made on effect of ICT in enhancing the productivity and overall performance of SMEs as an exceptional situation by marketers, scholars and practitioners and researchers. Globally, using ICT as a tool to increase productivity and overall operational performance is one of the most challenging situations that SMEs are facing especially with the growing concept of international marketplace due to the lack of knowledge. As a consequence, SMEs are in immediate need of shifting from their traditional methods to modern methods in order to meet the international business demands. The benefit earned by the SMEs on implementing the ICT in their primary and support operations is beyond human imagination. Despite this fact, the impact of using ICT in operations of MSMEs and its effect on overall operational performance in India has no longer been much explored.

Literature Review: Mirela Nastasia and Costel Mironeasa tried to identify the key

performance indicators of SMEs and have suggested that growth of a business is solely not dependent on the traditional attributes of size and age, but it is also effected by some other firm - specific factors such as debt ratio, growth opportunities, adoption of creativity and innovation in both product and process, and organizational changes.

Chris Hall and Charles Harvie (2013) ^[20] observed that if SMEs have incentives to exit from low opportunity areas without bearing unreasonable costs, then the SME sector actually seems to be able to perform better under turbulence. Odili Okwuchukwu (2015) ^[17] strongly recommended the inclusion of both public and private sector in the economy, especially the small and medium scale enterprises (SMEs), as a competition for the foreign producers.

Ayyagari *et al.* (2007) ^[18] SMEs have been recognized as the driver of an economy even by the World Bank as they play a pivotal role in boosting the economy, increasing employment and per capita income.

Gibson *et al.* (2008) ^[19] unclear and varying meaning and status of SMEs deprive them of several government sponsored schemes and benefits.

Oladejo and Adereti (2010) ^[11] the time period of the 1990s witnessed the rapid expansion of internet all over the world, which provides a fast and even more effective platform to the organizations to communicate and trade.

Oladejo and Yinus (2013) ^[10] increased use of information technology and ICT can benefit the organizations with plethora of information resulting in improved performance, intact relationships with customers and vendors, cost-efficient production among others.

Bansal and Sharma (2006) ^[5] digitalisation has extensively transformed the methods in which business operations are performed, thus putting new challenges to the Entrepreneurs. However, the impact of digitalisation on SMEs activities in order to ensure better performance is worthy of analysis in this present move to cashless economy.

Manyika and Roxburg (2011) ^[7] the increased technological advancement in recent time has strongly effected the SMEs in different parts of the globe like in China and Brazil.

Rahayu and Day (2017) ^[14] an in-depth review of the process of digitalisation in both the developed and developing countries can prove helpful in improving the understanding of the problems of ICT adoption.

Jones *et al.*, (2014) ^[6] the top management and decision-makers of businesses, including SMEs, must introduce and ensure full utilization of ICT in order to sustain and flourish in the present economic scenario.

Objectives

Following are the objectives of the study

- To ascertain the impact of digitalization on MSMEs in India.
- To identify the challenges faced by MSMEs in the process of digitalization.

Hypothesis

1. **H₀:** Digitalization has no significant impact on MSMEs in India.
2. **H₁:** Digitalization has a significant impact on MSMEs in India.

Methodology

This paper has used both primary and secondary data. The

secondary data was gathered through publications, journals, and websites sponsored by the government. However, the analysis of the acquired primary data is what led to the conclusions of this study. The MSMEs were the subject of a systematic questionnaire study. A total of 318 MSMEs answered, and 250 of those replies were chosen as samples. The remaining replies were either inaccurate or insufficient. The degree to which the digitalization of MSMEs has been impacted was assessed using the Chi-square test.

Advantages of Digitalization

Improved efficiency

Customers desire a rapid response and the market no longer places restrictions on conversion, so being effective in your responsiveness is essential for gaining new clients and, more importantly, keeping existing ones. You can respond fast thanks to digitization, which also increases the likelihood of conversion.

User experience

Enhanced user experience may result in longer-time customer retention. Digital transformation and expert IT support helps in opening new avenues of communication, offers quicker responses and honest and immediate remarks.

Cost reduction

Digitized organizations make certain that their fixed prices have decreased on average with improved quality.

Differentiation

There are various MSMEs who maintain their organizations without digitizing and without having any digital support. Taking the benefits digitalization brings with it, an absolute differentiation can easily be made in the performance of two firms.

Culture of innovation

Digitization stimulates innovation. MSMEs that adopt digital methods not only increase their entrepreneurial value but also bring more creative and innovative ideas that drive growth.

Increased income

Online sales provide a much larger customer base to the sellers as they can reach to any number of customers and in any area, thus increasing the possibility of sales and increased income.

Increased customer base

Digitization makes a company's digital reach go very far, impacting a greater volume of users. Around 4 billion people are using digital platforms on different social media. This increases the chances of increasing its reach and may result in an increase in sales and offers numerous benefits.

Challenges of digitalization

Lack of technical knowledge

MSMEs of today witness the greatest challenge as lack of knowledge and technical updation regarding digitalization that can be reasonably negated through implementation of internet based services like e-commerce and social networking platforms. However very few of the MSMEs are privy to them which is a big hurdle and prevents an enterprise from benefitting from such facilities.

Lack of funds and primitive infrastructure

Most of the MSMEs in India are facing the problem of lack of funds and old and outdated infrastructure which prevent them to perform their activities effectively. Generally MSMEs depend on government loans and grants.

Incompetent Regulatory Framework

The problem of data theft, illegal hacking and malware are the biggest threats that may be faced by the MSMEs while going digitalized. This is because the economy lacks proper and efficient regulatory framework to counter these threats.

Entrepreneurial skills

Small and Medium business operations have a very thin line between success and failure. They have the chance of success only when they have full control over finances, data and market access. Such control over resources is only possible through a strong leadership, better communication skills and proper coordination.

Findings and Analysis

To ascertain the impact of digitalization on the performance of MSMEs in India, the researcher used Chi-Square test to analyse the data and test the hypothesis. A total of 318 responses were received. The simple random sampling technique was used for selection of elements from the population. Data from 250 respondents was selected and put to test using the Chi-square formula; $X^2 = \sum (O - E)^2 / E$

Table 1: The performance of MSMEs in India going to improve after digitalisation

	Frequency	Percentage
Agree	215	86
Disagree	28	11.2
Not Sure	7	2.8
Total	250	100

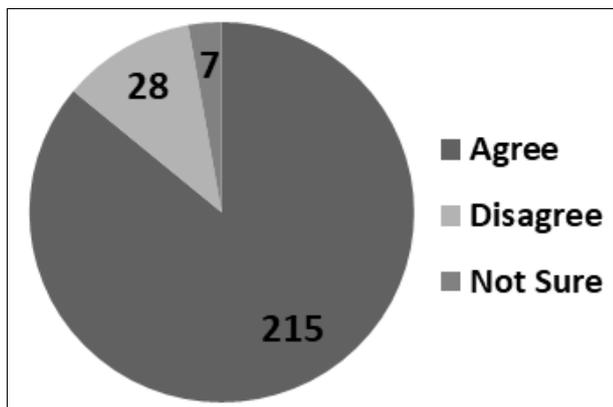


Fig 1: Frequency of performance of Msmes after Digitalisation

Table 1 reveals that 215 (86%) responded that the performance of MSMEs in India will improve after digitalisation, while 28 (11.2%) respondents disagreed and 7 (2.8%) of the respondents were not sure.

Table 2: ICT serve as determinant of economic growth and development of MSMEs business operations in India

	Frequency	Percentage
Agree	217	86.8
Disagree	20	8
Not Sure	13	5.2
Total	250	100

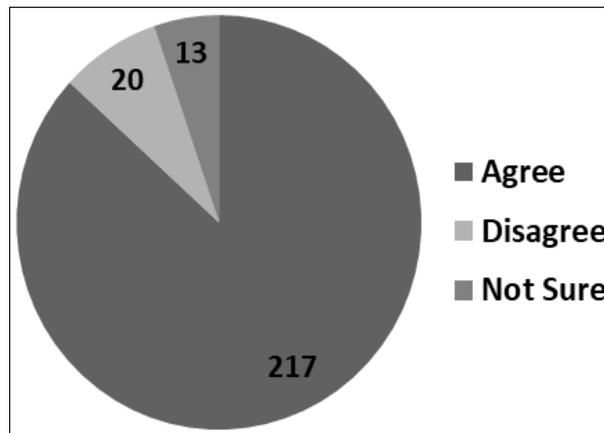


Fig 2: Frequency of ICT as determinant of Economic growth and development of MSMEs

Table 2 reveals that 217 (86.8%) respondents were of the opinion that adoption of ICT tools in business operations by the SME will be instrumental in the economic growth and development of India; whereas 20 (8%) respondents declined the idea and 13 (5.2%) of them were unable to decide.

Table 3: Adoption of ICT in MSMEs create more employment opportunities

	Frequency	Percentage
Agree	185	74
Disagree	56	22.4
Not Sure	9	3.6
Total	250	100

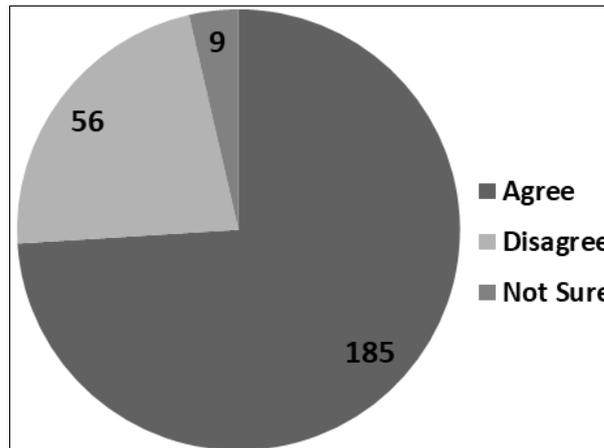


Fig 3: Frequency of adaptation of ICT for MSMEs in creation of Employment

Table 3 reveals that 185 (74%) respondents agreed that adoption of ICT in SMEs will increase employment opportunities in India; while 56 (22.4%) respondents disagreed and 9 (3.6%) of the respondents could not take a decision.

Table 4: Digitalisation of MSMEs in India help in reducing poverty

	Frequency	Percentage
Agree	210	84
Disagree	15	6
Not Sure	25	10
Total	250	100

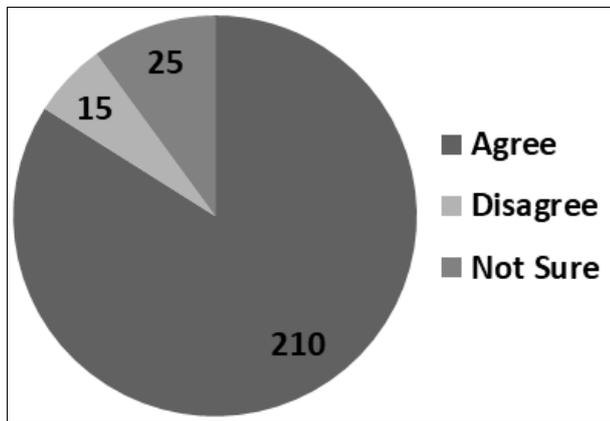


Fig 4: Frequency of digitalization of MSMEs in reducing Poverty in India

Table 4 reveals that 210 (84%) respondents opined that digitalisation of SMEs will help in reducing poverty in India; 15 (6%) respondents had a negative opinion and 25 (10%) of the respondents were not sure.

Table 5: Digitalisation going to provide business opportunities for MSMEs in domestic market and foreign market

	Frequency	Percentage
Agree	215	86
Disagree	32	12.8
Not Sure	3	1.2
Total	250	100

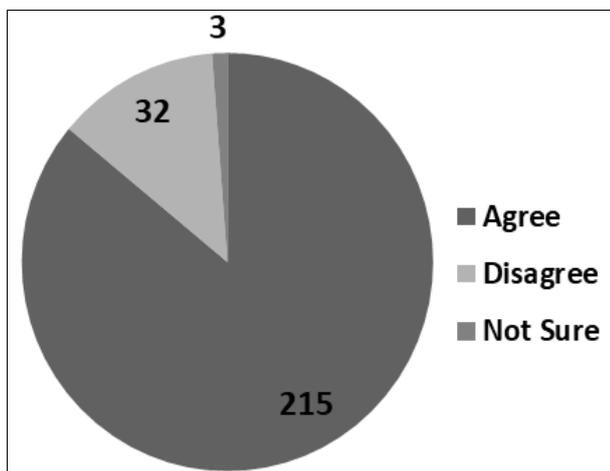


Fig 5: Frequency of digitalization going to business opportunity for MSMEs in domestic and international market

Table 5 reveals that 215 (86%) respondents agree that digitalisation will provide business opportunities to SMEs in domestic market and foreign market; whereas 32 (12.8%) respondents disagreed on the point and 3 (1.2%) of the respondents were not sure.

Table 6a: Contingency table of observed frequency

Question	Agree	Disagree	Not Sure	Total
1.	215	28	7	250
2.	217	20	13	250
3.	185	56	9	250
4.	210	15	25	250
5.	215	32	3	250
Total	1042	151	57	1250

Table 6b: Contingency Table of Expected Frequency

Question	Agree	Disagree	Not Sure	Total
1.	208.4	30.2	11.4	250
2.	208.4	30.2	11.4	250
3.	208.4	30.2	11.4	250
4.	208.4	30.2	11.4	250
5.	208.4	30.2	11.4	250
Total	1042	151	57	1250

The figures in table 6a above represent the Observed frequency (Of) while figures in the table 6b above represent the Expected frequency (EF). The observed frequency (Of) is obtained from the responses of the questionnaire while the expected frequency (EF) was calculated using the formula;

$RT \cdot CT / GT$ where, RT = Row Total, CT = Column Total and GT = Grand Total.

Test of Significance

In testing the level of significance, the 0.95 (95%) or 0.05(5%) was used at 8 degree of freedom (DF). The degree of freedom is computed as: $DF = (Row-1) (Column - 1)$.

$DF = (5 - 1) (3 - 1)$.

$DF = (4) (2)$.

$DF = 8$.

The critical (tabulated) value of X^2 is = 15.50.

Calculation of X^2

Table 7: Contingency Table of Calculated Chi-square

Row and Column	OF	EF	of-EF	(Of-EF)^2	(Of-EF)^2/EF
R1C1	215	208.4	6.6	43.56	0.21
R1C2	28	30.2	-2.2	4.84	0.16
R1C3	7	11.4	-4.4	19.36	1.70
R2C1	217	208.4	8.6	73.96	0.35
R2C2	20	30.2	-10.2	104.04	3.45
R3C3	13	11.4	1.6	2.56	0.22
R3C1	185	208.4	-23.4	547.56	2.63
R3C2	56	30.2	25.8	665.64	22.04
R3C3	9	11.4	-2.4	5.76	0.51
R4C1	210	208.4	1.6	2.56	0.01
R4C2	15	30.2	-15.2	231.04	7.65
R4C3	25	11.4	13.6	184.96	16.22
R5C1	215	208.4	6.6	43.56	0.21
R5C2	32	30.2	1.8	3.24	0.11
R5C3	3	11.4	-8.4	70.56	6.19
					61.66

From the table, $X^2=61.66$

Interpretation

The calculated value of X^2 (61.66) (as statistical test show in the above table) is higher than the critical (tabulated) value of X^2 (15.50), the research therefore reject the null hypothesis (H_0) i.e. “There is no significant impact of digitalization on SMEs in India” and accept the alternative hypotheses (H_1) that “there is a significant impact of digitalization on SMEs in India”. Furthermore, the results of analysis also implied that digitalization has a significant impact on creating job opportunities, reducing poverty and increasing economy.

Conclusion and Recommendations

In India, it is important to strive for the digitalization of businesses at the same quick pace as that of consumers.

Since they account for over 56% of the GDP of India and employ about 75% of the labour force overall, MSMEs are said to have had a significant impact on the growth of the Indian economy. India's SMEs, however, were unable to enjoy significant success despite this technical advancement. However, the study's findings show that ICT adoption in SMEs is crucial to the expansion of economic activity. The study comes to the conclusion that digitalization significantly affects how well SMEs perform overall in India. It does this by accelerating economic growth, lowering poverty, and giving MSMEs access to both domestic and international markets. Following recommendations have been offered in light of the foregoing conclusion.

1. MSMEs should improve their strategies made in the process of adoption of ICT in business operations.
2. MSMEs need to increase access to information which will require co-operation among all stakeholders - public, government agencies and intermediary organizations.
3. MSMEs should be provided with financial support for adopting ICT to minimize the cost of consultation and professional support.

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