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EXPLORING MSMES' ATTITUDE AND BARRIERS IN ADOPTING DIGITAL PRACTICES FOR DAY-TO-DAY BUSINESS TRANSFORMATION

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Abstract

Purpose: MSMEs play a vital role in economic growth by fostering employment, innovation, exports, and balanced regional development. The study's primary objective is to investigate the attitudes and barriers to digital adoption among MSMEs for day-to-day business transformation.

Methodology: The study was conducted using secondary data obtained from credible sources such as government reports, published research papers, industry databases, and authenticated online portals. The use of secondary data enabled a comprehensive understanding of existing trends, patterns, and relationships related to the research topic.

Findings: This study aims to inform policymakers, MSMEs, and stakeholders in the digital economy, highlighting the challenges and opportunities of digital transformation in the MSME sector.

Practical Implications: The study recommends that MSMEs actively recognize the significance of adopting digital practices to enhance the efficiency of their business operations. Policymakers and support organizations can use these insights to foster conducive environments for the digital transformation of MSMEs by offering targeted training programs, dedicated resources, and financial support tailored to their unique requirements.

Originality: By cultivating a mindset of innovation and flexibility, MSMEs can fully leverage digital technologies to strengthen their market position and foster long-term, sustainable growth.

Keywords: MSME, digital practices, adoption, business transformation.

Introduction

Today's MSMEs emerged from the local needs of villages and trade centres of that period. They experienced significant growth and recognition over time. However, during the British era, they also faced considerable systemic setbacks. As political and geographical landscapes changed, these enterprises encountered a more favorable market environment. The government then started prioritizing the structured development of these units, leading to the introduction of various policies, rules, and regulations at both the national and state levels. In October 1999, the Indian government established the Ministry of Small-Scale Industries and Agro and Rural Industries (SSI and ARI) with the primary goal of fostering a more supportive environment for MSMEs. As the industrial sector expanded, this ministry was divided into two separate entities in September 2001: the Ministry of Small-Scale Industries (SSI) and the Ministry of Agro and

Rural Industries (ARI). The MSME Act was enacted in 2006, and the following year, on May 9, 2007, the two ministries were merged to form the "Ministry of Micro, Small and Medium Enterprises." The development of these enterprises across these three phases has established the foundation for the current structure of MSMEs. These significant milestones continue to influence the present MSME market. However, the Indian MSME sector has yet to fully harness its potential in alleviating poverty and unemployment in the country.

CLASSIFICATION	MICRO	SMALL	MEDIUM
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs. 2.5 crore and Annual Turnover not more than Rs. 10 crores	Investment in Plant and Machinery or Equipment: Not more than Rs. 25 crore and Annual Turnover not more than Rs. 100 crores	Investment in Plant and Machinery or Equipment: Not more than Rs. 125 crore and Annual Turnover not more than Rs. 500 crores

Classification of Micro, Small, and Medium Enterprises by the Government of India.

Source: https://MSME.gov.in/know-about-MSME

Manufacturing Enterprises

These businesses are involved in the physical production or processing of goods. Some operate from industrial sheds equipped with older machinery, while others utilize more automated systems. The majority cater to local or regional markets, although some also engage in exporting.

Common manufacturing MSMEs include:

- Textile units: garments, hosiery, woven cloth, home furnishings
- Rubber and plastic goods: moulded items, utility tools, packaging
- Metal fabrication: grills, gates, kitchen racks, almirahs, sheet metal parts
- Wooden products: furniture units, plywood goods, carpentry workshops
- Leather and imitation leather: belts, wallets, footwear, bags
- Chemicals and coatings: adhesives, paints, small-scale pharma units
- Food processing: spice grinding, flour mills, snacks, pickles
- Paper and stationery: notebooks, boxes, printed paper products
- Coir, khadi, and handicrafts: local handmade goods
- Ceramics and glass: tiles, crockery, sanitaryware
- Bicycle parts, fasteners, tools, small machinery components
- Micronutrients for agriculture, ayurvedic preparations
- Auto components: wiper blades, brake pads, electricals

Service-based Enterprises

The service sector has seen a surge in MSME activity, especially since digital services and informal labor began moving into more formal setups. These businesses don't make physical goods but provide repair, rental, support, or digital services.

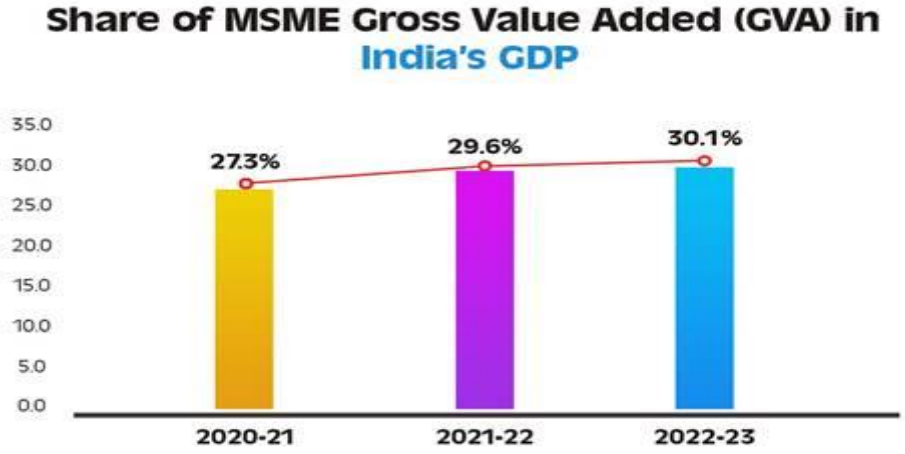
Examples include:

- Auto repair workshops and diagnostic garages
- Laundry and dry-cleaning shops
- Beauty parlours, salons, grooming studios
- Training centres, coaching institutes, and upskilling hubs
- Testing labs, X-ray, and diagnostic service providers
- Consultancy firms in HR, law, finance, or business setup
- Data processing and back-office support units
- Call centres, BPOs, and tele-support businesses
- Equipment leasing: pumps, generators, sound systems
- Software service providers, including local hosting firms
- Security and surveillance system installers
- Internet cafés, Xerox shops, lamination and printing services
- Agricultural service centres (tractor repair, pump servicing)
- App-based service firms with small teams (e.g., plumbing, AC repair)

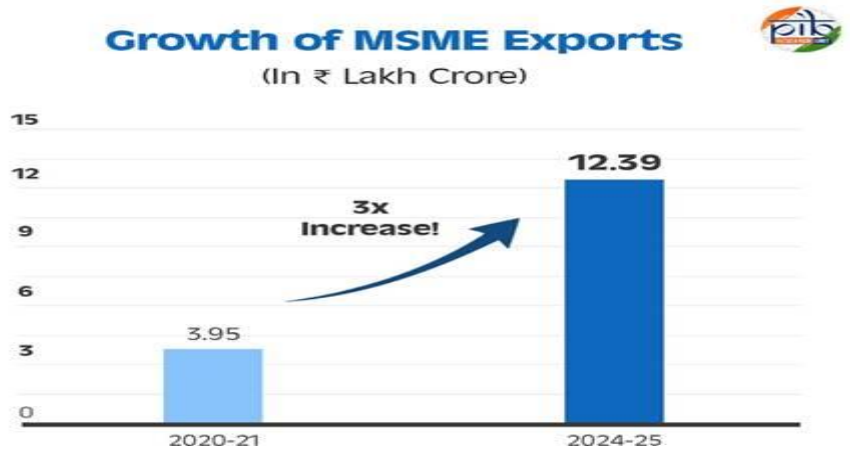
Source: https://blog.tatanexarc.com

Current Landscape of MSMEs in India

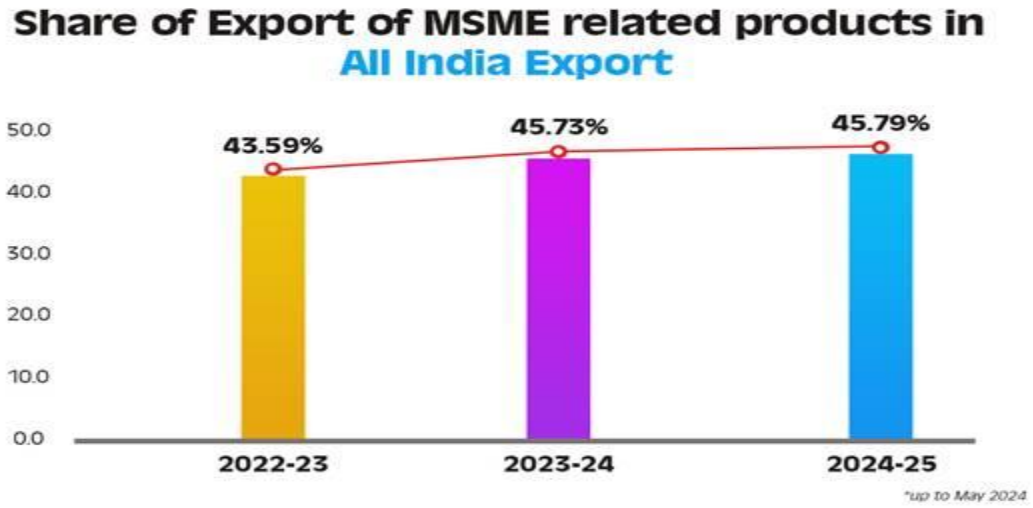
The MSME sector remains a cornerstone of India's economic growth, significantly contributing to employment, manufacturing, and exports. In recent years, the sector has displayed remarkable resilience, with its share in the country's Gross Value Added (GVA) increasing from **27.3% in 2020-21 to 29.6% in 2021-22 and 30.1% in 2022-23**, highlighting its growing role in national economic output.



Exports from MSMEs have seen substantial growth, rising from **₹3.95 lakh crore in 2020-21 to ₹12.39 lakh crore in 2024-25**. The number of exporting MSMEs has also surged, increasing from **52,849 in 2020-21 to 1,73,350 in 2024-25**.



Their contribution to India's total exports has steadily grown, reaching **43.59% in 2022-23, 45.73% in 2023-24, and 45.79% in 2024-25 (up to May 2024)**. These trends underscore the sector's increasing integration into global trade and its potential to drive India's position as a manufacturing and export hub.



Review of Literature

Manochehri et al. (2012) examined the status of ICT adoption among MSMEs in both private and public organizations in Qatar. Their findings indicated that Qatari firms are primarily focused on the strategic and operational dimensions of their business activities. The study also revealed that companies in Qatar are making significant investments in ICT, while the market itself remains relatively uncompetitive.

Beley and Bhatarkar (2013) explored the influence of emerging technologies on small and medium-sized enterprises in India. The study highlighted that the global economy is experiencing profound changes, with information technology serving as a crucial factor. It emphasized that modern businesses rely heavily on IT, which plays a vital role in shaping the operations of small and medium-sized enterprises.

Tarutė and Gatautis (2014) demonstrated the importance of gaining and capitalising on the positive outcomes (increased productivity, organisational expansion, efficiency, effectiveness, and competitiveness) of ICT adoption and implementation in various organisations.

Okundaye et al. (2019). The study examined how Nigerian MSMEs adopt Information and Communication Technology (ICT) as a business strategy to enhance profitability and strengthen their global competitiveness. The adoption of ICT was found to influence various organizational aspects, including flexibility, job creation, efficiency, productivity, growth, crime and fraud prevention, financial gains, communication, advertising, competitiveness, globalization, and customer relations. However, due to limited resources, inadequate skills, insufficient financing, and low levels of education, MSMEs are unable to fully exploit the potential benefits of ICT compared to larger corporations. The study also emphasized that the commitment of enterprise and government leaders is crucial for the effective implementation of ICT within organizations.

Jayeola et al. (2022) investigated the effect of government financial support on cloud ERP implementation and its subsequent influence on the financial performance of MSMEs. Using the least squares structural equation modelling approach, the study analyzed data from 204 Malaysian manufacturing MSMEs. The findings indicated that government financial assistance positively influences cloud ERP implementation, leading to improved financial performance.

Objectives of the Study

1. To understand the initiatives of digital transformation of MSMEs in India.

2. To know the benefits and challenges of digital transformation in MSMEs.

Statement of the Problem

This study examines the challenges encountered by MSMEs in India, especially in adopting digital technology, despite the increasing demand for digital transformation. Financial limitations restrict their capacity to invest in digitization. By highlighting these barriers, the study offers valuable insights to government agencies, industry stakeholders, and MSMEs, facilitating a smoother and more effective digital transition.

Major Challenges in Implementing Digital Transformation

- Financial constraints

  MSMEs consistently face financial constraints that hinder their ability to invest in new technologies and modern infrastructure. In the context of digital transformation services, the high upfront costs often act as a significant barrier for these enterprises.

- Limited knowledge

  Most MSMEs lack in-house technical expertise to manage advanced solutions, forcing them to depend on external support. This reliance often leads to increased costs and greater operational complexity.

- Organizational resistance

  Employees in startups and MSMEs often resist change due to misconceptions about automation and digitalization. Such resistance can hinder and slow down the transformation process.

- Cybersecurity

Many MSMEs are highly susceptible to cyberattacks because of inadequate security measures and outdated systems. While protecting confidential data is crucial, limited budgets often make this task challenging for them.

Benefits of Digital Transformation in Micro, Small, and Medium Businesses

Increased Market Reach: MSMEs can extend their reach beyond local boundaries. Utilizing online platforms and digital tools enables them to connect with customers globally. This expansion allows MSMEs to access larger markets and compete more effectively with established companies. Additionally, digital transformation solutions provide valuable insights that help them explore and tap into new market opportunities.

Improved Customer Experience: Advanced communication and customer support tools can enhance the customer experience by providing 24/7 assistance and personalized service. MSMEs can establish online channels to gather valuable customer feedback and implement necessary improvements. Overall, these tools enable MSMEs to deliver better customer experiences and build a loyal customer base.

Enhanced Decision-making: Businesses can gain data-driven insights from multiple sources through digital transformation. These insights assist in enhancing the decision-making process. By analyzing market trends and customer data, businesses can make real-time decisions, which reduces the risk of errors and promotes greater sustainability.

Reduced Operational Costs: Advanced tools and technologies automate core business processes and streamline daily operations, leading to significant reductions in operational costs. MSMEs can adopt paperless workflows and cloud-based solutions to optimize resource use. This ultimately results in higher savings and increased productivity over time.

More Efficiency and Productivity: Enhanced collaboration and automation can boost workforce efficiency by streamlining workflows and freeing employees to concentrate on high-value, productive tasks. This increased productivity and efficiency can help MSMEs drive growth and achieve greater success.

Road ahead

The Government of India has envisioned doubling the Indian economy to US$7 trillion by FY30. To achieve this goal, career opportunities for the young population have been generated, and MSMEs have the potential to serve as a key employment generator. Therefore, the government has taken up the promotion of MSMEs to create new jobs in the sector. Further, the government aims to enhance MSMEs' share in exports and their contribution to GDP.

To achieve these targets, the government should invest in providing more back-end services to improve the performance of the MSME sector, as it supplies goods and services to big industrial enterprises. Lack of technology-based production activities and low investment in R&D activities are bottlenecks hindering the sector from becoming competent. Globally available technology could be subsidised by the government so that the product quality of MSME players can be improved using the existing resources. This also requires the help of academic institutions in the form of providing Research and Development (R&D) services for product innovation.

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