

Digitization And Growth of MSME Sector in India

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Abstract: The Micro, Small, and Medium Enterprises (MSME) sector is a crucial pillar of the Indian economy, contributing significantly to employment generation, innovation, and GDP growth. With the advent of digitization, MSMEs in India have witnessed a transformation in their operational efficiency, market reach, and financial inclusivity. This research paper focuses on transformation taken place in MSME sector due to digitization which is been examined by studying the relation between the investment and turnover. Secondary data collected through various sources is been analyzed to reach the conclusion.

Keywords: MSME, Digitization, investment and turnover

INTRODUCTION

MSME stands for Micro, Small, and Medium Enterprises. These enterprises are the backbone of the Indian economy and have been instrumental in driving the growth of the country. According to the Ministry of MSME, there are around 63.4 million MSMEs in India, which employ over 110 million people. They account for approximately 30% of India's GDP and contribute around 50% to the country's exports.

The growth of MSMEs has also been aided by advancements in technology and digitalization. The emergence of e-commerce platforms and digital payment systems has enabled MSMEs to reach customers beyond their local markets and improve their competitiveness.

Digitization has also enabled MSMEs to access various government services online, reducing the time and costs involved in these processes. For instance, MSMEs can register their businesses online, apply for loans and subsidies, and file taxes through online portals.

Moreover, digitization has enabled MSMEs to leverage data analytics and artificial intelligence (AI) to gain insights into their business operations and make data-driven decisions.

LITERATURE REVIEW:

Literature review examines existing research on the role of digitization in the growth of the MSME sector in India, highlighting key themes, challenges, and opportunities.

Several studies underscore the positive impact of digital technologies on MSME growth.

Kumar & Sharma (2020) indicates that MSMEs leveraging digital platforms such as e-commerce, cloud computing, and artificial intelligence have experienced higher revenue growth and improved customer engagement. A report by McKinsey (2020) highlights that digitally mature MSMEs

grow at nearly twice the rate of traditional MSMEs. Adoption of digital marketing, automation, and customer relationship management (CRM) tools has resulted in enhanced customer acquisition and retention.

According to the World Bank (2021), digital transformation facilitates business expansion, improves productivity, and enhances competitiveness. Chakraborty (2021) identified a strong correlation between cloud-based enterprise solutions and business expansion in the MSME sector. Digital adoption has enabled firms to streamline supply chains, enhance customer engagement, and optimize pricing strategies, contributing to overall revenue growth.

Das & Kapoor (2022) found that MSMEs adopting social media marketing strategies saw a 40% improvement in brand visibility and a 20% increase in customer retention. Singh & Reddy (2023) highlight that subsidies for adopting digital infrastructure and tax benefits for MSMEs investing in technology have further accelerated digital transformation. Jain & Malhotra (2023) propose that MSMEs adopting cybersecurity solutions and AI-driven automation will be better positioned to scale their operations securely and efficiently.

The Indian government has introduced several initiatives to promote digital adoption among MSMEs. The Digital India Programme, Udyam Registration, and MSME Champions Portal have played a significant role in streamlining digital services for small businesses. Additionally,

Despite the advantages, several barriers hinder MSMEs from fully leveraging digitization. Studies by Sharma & Gupta (2018) identify challenges such as inadequate digital literacy, high implementation costs, and cybersecurity concerns. Additionally, a report by NASSCOM (2020) points out that many MSMEs struggle with integrating advanced technologies due to resistance to change and lack of a skilled workforce. Mishra & Rao (2023) argue that

infrastructural gaps, especially in rural areas, also limit the growth. digital transition of MSMEs, restricting their potential

RESEARCH METHODOLOGY:

This is an exploratory study conducted with the help of secondary data, collected by reviewing literature available through government websites, reports, journals, articles, magazines etc. All the data is analyzed keeping in view the objective of the study. Simple statistical methods like correlation, linear regression, t test along with graphical representation is used to analyze and interpret the data.

Research Objectives:

The present paper is designed for following objective:

- To assess the relationship between MSME turnover and growth with respect to digitization.
- To analyze the impact of digitization on MSME turnover and growth.

Hypothesis of the study:

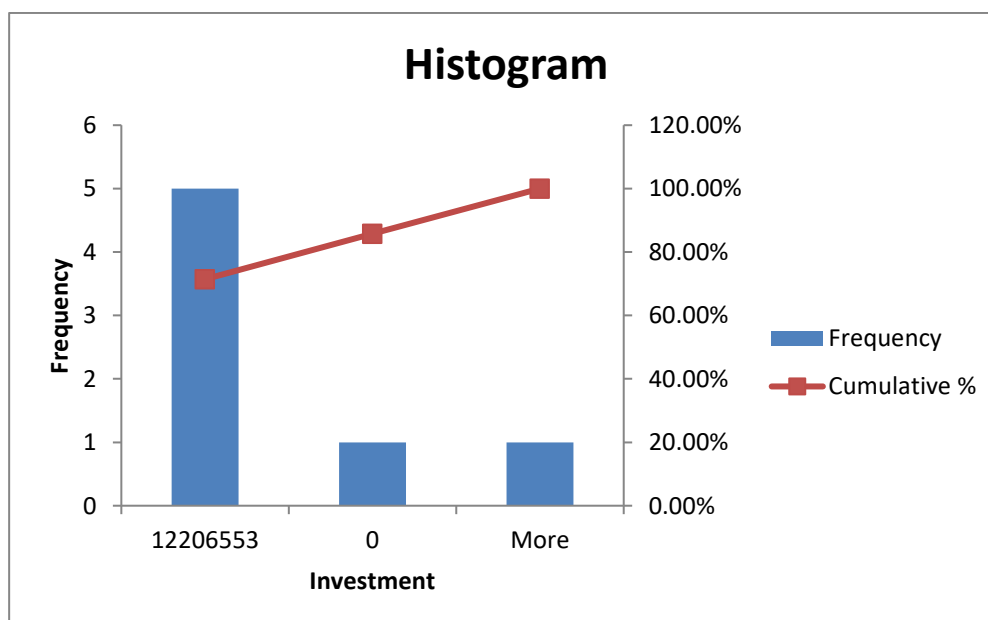
- Null Hypothesis (H₀): Digitization in the MSME sector in India is not affecting the turnover in a positive way.
- Alternative Hypothesis (H_a): Digitization in the MSME sector in India is affecting the turnover in a positive way.

Data Analysis and Interpretation:

To understand the growth of MSME sector due to digitization, the investment data and turnover data from the government's udyam portal is referred. The data can be understood in following way:

Investment

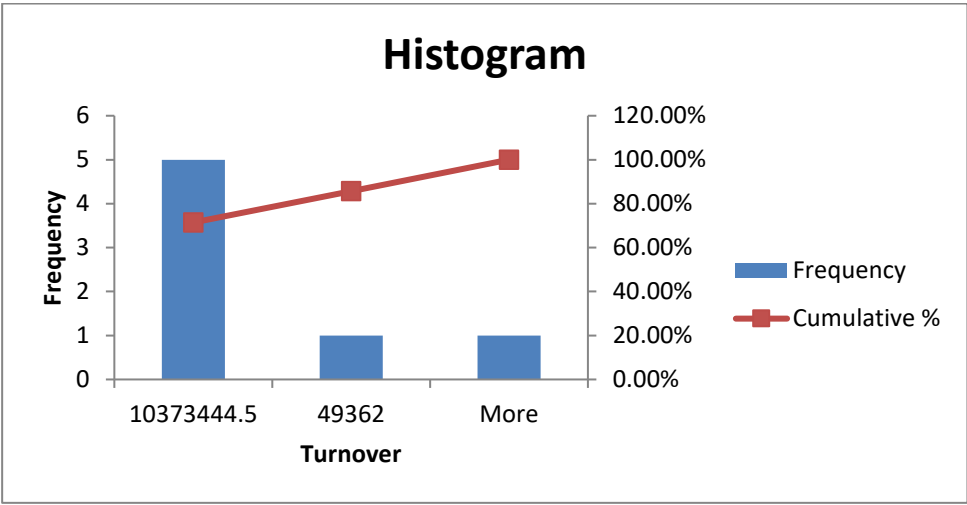
	Micro	Small	Medium
upto 25 Lakh	23836346	562760	14000
25-50 Lakh	229971	66400	5779
50-1 Cr	101819	48858	6004
1-5 Cr	0	321700	13042
5-25 Cr	0	12533	10886
25-50 Cr	0	0	5986
50-250 Cr	0	0	0



Turnover

	Micro	Small	Medium
upto 25 Lakh	20678034	17763	1730
25-50 Lakh	3558511	3105	0
50-1 Cr	793481	5126	110
1-5 Cr	1138110	35982	488
5-25 Cr	0	480799	2013
25-50 Cr	0	69476	1793

50-250 Cr	0	0	49362
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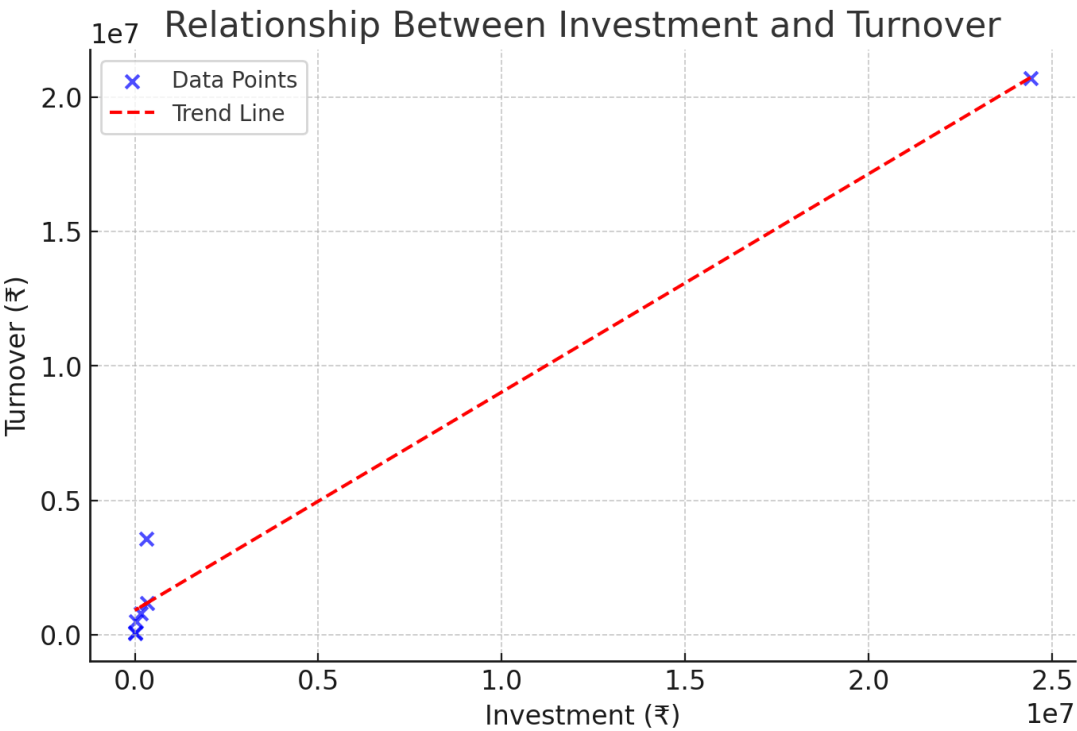
Observations from the Data

The highest investment (₹24,413,106) corresponds to a high turnover (₹20,697,527) reinforcing the positive relationship. Even smaller investments (e.g., ₹302,150) show relatively high turnovers (₹3,561,616), indicating that efficient resource allocation can yield good returns.

Some low-investment cases (e.g., ₹5,986) still generate turnover (₹71,269), suggesting that even minimal investment can contribute to business performance.

Some businesses generate high returns even with modest investments, possibly due to strong market demand, operational efficiency, or digital adoption.

Objective 1: To assess the relationship between MSME turnover and growth with respect to digitization.



Conclusion: The trend suggests that as investment increases, turnover also rises in a proportional manner indicating a strong positive relationship with correlation coefficient is 0.989

Objective 2: To analyze the impact of digitization on MSME turnover and growth.

A linear regression analysis is conducted to check if investment significantly predicts turnover and t-test is used to determine statistical significance.

Model	Unstandardized Coefficients (B)	Std. Error	t	p-value (Sig.)	95% Confidence Interval (Lower - Upper)
Constant	907,100	503,000	1.804	0.131	-386,000 to 2,200,000
Investment (X1)	0.8118	0.054	14.899	0.000	0.672 to 0.952

Model Summary

R	R ²	Adjusted R ²	F-statistic	p-value (F-test)
0.989	0.978	0.974	222.0	0.0000246

Conclusion: The regression analysis with R-squared = 0.978 proved that 97.8% of the variation in turnover is caused by investment, indicating a strong relationship.

Coefficient of investment indicated that for every ₹1 increase in investment, turnover increases by ₹0.81, reinforcing the positive effect.

Hypothesis Testing:

Null Hypothesis (H₀): Digitization in the MSME sector in India is not affecting the turnover in a positive way.

Above hypothesis is tested and since the p-value is less than 0.05, we reject the null hypothesis (H₀) and conclude that digitization in the MSME sector in India is affecting the turnover in a positive way.

Major Findings:

This research can help policymakers, industry leaders, and MSME owners understand the benefits and challenges of digitization. By leveraging this data, we can identify the most effective strategies for digital growth in India's MSME sector. As digital adoption increases, MSMEs will become more competitive in global markets, contributing significantly to economic progress.

Recommendations:

- To enhance digital accessibility for MSMEs to ease digital adoption in MSMEs
- To avail and increase the digital literacy rate so that maximum benefit can be taken.

Future of the study:

By leveraging investment vs. turnover data, we can identify the most effective strategies for digital growth in India's MSME sector. Future research should focus on sector-specific digital strategies and policy frameworks that can accelerate MSME adoption of digital tools and technologies.

CONCLUSION:

The research highlights that digitization is a key driver of MSME growth in India. While significant progress has been made, addressing existing challenges such as digital literacy, infrastructure, and cybersecurity is essential for ensuring a sustainable digital transformation.

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