



Digitalization of MSME's : A Need of an Hour

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ABSTRACT

MSMEs in India are a significant donor to the Indian country and are drivers of progress. By its less assets oriented and high labour absorption character, MSME sector has made significant assistance to the developed production, services formation, rural industrialization and export of the country. It is predictable that in terms of value, the sector accounts for about 45 per cent of the manufacturing manufacture and 40 per cent of the total export of the country. Over 6000 products ranging from traditional to high-tech items are manufactured by MSMEs in India. The sector creates largest services opportunity next only to agriculture. The present paper is based on secondary data which covers MSMEs, their role, digitalization in MSMEs, their benefits etc.

INTRODUCTION

MSMEs in India MSME Sector plays a major role in India's there export performance. According to the Ministry of MSME (2011b), just about 45-50 per cent of the Indian export is have a say by this sector. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export instructions from big units or the manufacture of part use in over exportable goods. It would shock lot of to know that non-traditional crop account for more than 95 per cent of the MSME export. In the last decade, the export arrangement has been additional fuelled by the progress of clothes, leather and gems & jewellery units of this sector. The product groups where the sector dominates in exports are sports education items, ready-to-wear garments, woollen garments & woollens, plastic products, processed food and leather products. According to the fourth survey of MSME, 67 per cent of the enterprises in the register MSMEs sector were occupied in

developed, whereas 17 per cent of the enterprise was engaged in the services behaviour. The residual 16 per cent of the enterprise were busy in repairing and conservation. About 90 per cent of the firms were proprietary owned firms. The manufacturing sector is an significant segment and considered to be a key development driver of the Indian country like in several developing countries. By NMCC and NASSCOM (2010), the Indian manufacturing separation has over 53 lakh manufacturing units with 99 per cent of the units employ less than 10 workers. Food & beverages, textiles, non-metallic mineral products, chemical products and machinery & utensils are the top 5 verticals in terms of number of units and they account for nearly 75 per cent of the total number of units in the manufacturing sector. *MSMEs in India* Small scale sector is the spine of Indian manufacturing sector with 90 per cent of the total industrial units. However, according to the statement by NMCC and NASSCOM (2010), the contribution of Indian manufacturing to the national GDP has stagnated over the last few years by about 15 per cent in spite of the progress in the built-up sector. The donation level is found to be much lower when benchmarked with comparable economies such as China (39.3 per cent), Thailand (35.2 per cent), Malaysia (31.1 per cent), Indonesia (24.7 per cent) and Vietnam (20.8 per cent) (NMCC & NASSCOM, 2010). The small sale sector is a significant component of the foundation layer of manufacturing sector and entrepreneurial actions in India. As the productivity and performance of large manufacturing firms would be influenced by the competitiveness of their suppliers, i.e., mainly MSMEs, it is significant to improve productivity levels of MSME to improve the manufacturing sector as an entire.

Challenges faced by MSME sector in India:

Despite the huge potential, the small scale sector face several confront and there have been the inadequacy in capital, technology and marketing. While SME sector in India did well in conditions of the absolute information, its relative performance was on the verge of stagnation. Still the services level remains stagnant on a per unit basis, but has improved considerably in relation to the organized sector services. The number of unregistered units is much higher than the number of registered units. found that cost, excellence and release time are the major pressures on the small industries. According to the study, SSIs speak out that the major constraints are lack of progress conducive environs, inadequate administration support and incentive and poor infrastructure for training. SSIs have highest competitiveness at local level and lowest competitiveness at worldwide *MSMEs in India* level. Use of information to optimize decisions, to define quality standards, and optimization of working surroundings are the chief areas of competency expansion (Singh et al., 2010). According to the fourth all India census 2006-2007, conducted by Ministry of Micro, Small and middle enterprise, Govt. of India, it was uncovered that about 29.40 per cent of the total units were suffering from illness and about 3.73 per cent of enterprises undergo from incipient sickness. Food products and beverages (17.73 per cent), apparel (10.23 per cent), textiles (9.11 per cent) were the top three industries that suffered from sickness. Percentage share of stopped up enterprises at nationwide level was about 22 per cent of the total registered enterprises. According Confederation of Indian manufacturing (CII), Indian MSMEs face several challenges for progress. Some of the evils are high cost of credit, incomplete access to equity capital, problems in supply to government departments and agency, procurement of raw resources at a competitive cost, inadequate infrastructure facilities such as power, road, low skill levels and lack of access to modern technology, lack of accomplished manpower, evils of storage space, designing, packaging and manufactured goods display, absence of suitable device to revive/close sick enterprises rapidly and lack of resources for branding and marketing, lack of right to use to global markets (CII, 2010). Infusing competitiveness, infrastructure development and bringing vast population of MSMEs in the unregistered sector to the usual is the main confront previous to the GOI at there.

Digitalization of Industries:

Manufacturing Industry in India has its history of going through various phases of development over the period of time. It shows the dream of becoming one of high growth sectors in the coming years. Scientific and Technological developments have changed the scenario. Process industries and machine builders and Manufacturers are adopting with Innovative solutions in the fields of software and automation. It is proved that SMEs are the backbone of Indian Industrial development. SSIs have performed remarkably in the industrial development of the country. SSIs has great share in industrial production, in export and in generating employment opportunities. Even having occupying majority share of the industry, they are suffering from various issues which are becoming hindrances in their growth. The major issue of SMEs is quality improvement. As there is extensive manual intervention in manufacturing processes and lack of skilled labor, they can't compete with big industries.

As we are well acquainted that customer demands are dynamic and ever changing in nature, the pressure of competition is also increasing, SMEs have to face these major problems. Digitalization in SMEs will definitely enhance efficiency. Digitalization will reduce cost of production and it may minimize the manufacturing defects. Digitalization will help to meet the international quality standards and it will help them to strengthen their position in the global market.

Digitalization for increasing Revenue:

The growth of SMEs can be driven by E- commerce. Fast growing E-commerce business will help to enhance the revenue. Reduction in cost and operational efficiency will help to reduce the cost and in turn it will increase the revenues to MSMEs.

Digitalization for acquiring larger customer base:

Ecommerce in large cities has flourished. As the number of internet users is increasing, SMEs can develop their customer base in wide range. Digitalization will definitely help SMEs to enhance their customer base.

Digitalization for increasing operational efficiency:

Digitalization will reduce the cost of operation. Ecommerce will reduce the marketing cost such as outsourcing to call centres, advertisement etc. Through the digitalization. SMEs can reduce all the operational expenditures.

Digitalization and Information:

SMEs lack in information regarding new developments and new technologies. Due to digitalization, SMEs can access all type of information on different Medias. Due to digitalization, SMEs will get all the benefits offered by technology.

Governance and Institutional support for MSMEs

The Ministry of Micro, Small and Medium Enterprises is the directorial Ministry in the administration of India for all matter relating to Micro, Small and Medium Enterprises. It designs and equipment policies and agenda from side to side its field organizations and attached offices for promotion and progress of MSME sector. The office of the growth representative is an emotionally involved office of the Ministry of MSME, and is the apex body to advise, coordinate and formulate policies and program for the growth and endorsement of the MSME sector. The office also maintains liaison with Central Ministries and other Central/State Government agencies/ organizations/ financial institution.

Ministry of MSME and its complex of organizations

The Development commissioner office of MSME, have a network of Development institute, Testing Centres, autonomous bodies which comprise Tool Rooms and Tool Design Institutes, Technology Development Centres and preparation Institutes. Other connected agencies of this workplace are National *MSMEs in India* Small industry Corporation (NSIC), Small Industries Development Bank of India (SIDBI) and Khadi & Village Industries expenses (KVIC).

National Small Industries Corporation (NSIC) Ltd.

was recognized in 1955 by the GoI with a view to promote, aid and forward the progress of small industries in the country. NSIC continues to remain at the vanguard of industrial development throughout the country with its various programmes and project to help the MSME in the country. The main functions of the company are to promote aid and foster the progress of micro and small enterprise in the country, generally on a profitable basis. It provides a variety of support armed forces to micro and little enterprises by catering to their supplies in the areas of raw material procurement, manufactured goods marketing, credit rating, acquisition of technology, and adoption of modern management practices. The NSIC is directly

operating different programmes by a dedicated team of professional at all levels and operate through 142 offices located all over India and one office located at Johannesburg, South Africa.

Small Industries Development Bank of India (SIDBI)

is an top bank set up to provide direct/indirect financial assistance under different scheme to meet credit needs of the small-scale sector and to coordinate the purpose of other institutions in similar activities. Their major operations are in the areas of refinance assistance, direct lending, and growth& support services.

Khadi & Village Industries Commission (KVIC),

established under the Khadi and Village Industries Commission Act, 1956, is a statutory friendship engaged in promoting and developing Khadi and Village Industries for provided that services opportunity in rural areas, thereby intensification the rural country. The KVIC has been identified as one of the major organizations in the decentralized sector for generating sustainable rural nonfarm services opportunity.

Divisions of Ministry of MSME

The Ministry of MSME has two Divisions called Small & Medium Enterprises (SME) Division and Agro & Rural Industry (ARI) Division. The SME divider is allocated the work of administration, caution and administrative supervision of the National Small Industries Corporation (NSIC) Ltd. and the three independent national level entrepreneurship development/training organisations. The separation is also accountable for completion of the schemes connecting to marketing and export promotion. The ARI separation looks after the management of two statutory bodies viz. the Khadi & Village Industries Commission (KVIC) and the Coir Board. It also looks after a newly created organization called Mahatma Gandhi Institute for Rural Industrialization (MGIRI). It supervises the completion of the Prime Minister's Services formation Program (PMEGP). The Coir Board is a statutory body established under the Coir Industry Act, 1953 for promote overall development of the coir industry and civilizing the living situation of the workers engaged in this conventional industry. Coir manufacturing is one of the major agro base rural industries in the country. The activities of the Board for expansion of coir industries include enterprise scientific, technological and economic research and

development activities; developing new products & designs; and marketing of coir and coir goods in India and abroad. It also promotes co-operative organizations amongst producers of husks, coir fibre, coir yarn and manufacturer of coir products, ensuring remunerative returns to producers and manufacturers. The Board has promoted two research institutes namely; Central Coir Research Institute (CCRI), Kalavoor, Alleppey and Central association of Coir skill (CICT), Bangalore for responsibility research actions on dissimilar aspect of coir manufacturing.

State Government support for MSMEs

The primary responsibility of promotion and maturity of MSMEs is of the state Governments. However, the GoI, supplements the efforts of the State Governments through a variety of initiatives. The role of the Ministry of MSME and its organizations is to assist the states in their efforts to encourage entrepreneurship, services and livelihood opportunity and perk up the competitiveness of MSMEs in the changed economic situation. State Government executes similar promotional and developmental projects/schemes and provide a number of behind incentives for growth and promotion of MSME sector in their own states. These are executed from side to side State Directorate of industry, who have District Industries Centres (DICs) under them to realize central/state level schemes (www.dcmmsme.gov.in). Apart from profitable banks, at state height, State Financial Corporation's (SFC) and twin function State Industrial growth Corporations are the major sources of long air money to MSMEs.

Government policies and support measures for MSMEs

Since sovereignty, GoI has given importance to the MSME sector, as it creates services opportunities and facilitates mobilization of secretive sector resources. GoI has taken supportive measures such as condition of items for exclusive manufacture by MSMEs, access to credit through priority sector lending program for commercial banks, excise exemption, reservation under Government acquire program and 15 per cent price preferences in purchases, infrastructure development and establishment of institutes of consumerist and skill development. MSME Development Institutes, formerly recognized as Small industry Service organization (SISI), were set up all over India to train youths and tool accommodation were set up with German and Danish assist to give skill preparation and provide technical assistance. At

the state level, region Industrial Centres was setup throughout the state. Over a period of time, with liberalization, government policy has moved from protective measures to infusing progress and competitiveness in the sector. Supportive events focused on infrastructure increase, technology and fineness.

Finance

The Government has initiated several measures to facilitate easy access of funds to MSME sector. One such initiative is priority sector lending. For public and private sector banks, 40 per cent of the Net Bank Credit (NBC) is earmarked for the priority sector. Credit to MSMEs is from side to side the priority sector lending policy of the bank. For the foreign banks, 35 per cent is for main concern sector of which 10 per cent is reserved for MSMEs. Any shortfall in lending by foreign banks has to be deposited in Small Enterprise growth Fund (SEDF) setup by SIDBI. The Government has also announce policy package for stepping up credit to small and medium enterprises with the objective of repetition the credit stream to the sector in the next five years. In recent years, the sector has shown interest in alternative sources of funding such as primary/secondary securities market, venture capital and private equity, outside commercial borrowings, factoring services etc. Efforts are being put for Limited Liability Company Act to provide thrust to MSMEs in their move towards corporatization. The management has introduced a Credit Guarantee Scheme which provides collateral free credit ability by eligible lending organization to new and available MSMEs for loan upto 100 lakh per borrowing unit.

Technology

To facilitate skill up gradation and quality improvement, more than a few measures have been initiated by the GoI. The Government has set up ten state of the art Tool Rooms and preparation enters. These tool accommodations are *MSMEs in India* proficient in mould and die creation technology and abreast with latest technology such as CAD/CAM, CNC machining for tooling, void Heat Treatment, Rapid Prototyping etc. Tool Rooms offer guidance programmes on technical skills required for the manufacturing sector. The direction has introduce ISO 9000/14001 Certification Fee Reimbursement Scheme and reimburse 75 per cent of the certification fees subject to maximum of ₹ 75,000. To facilitate replacement of old equipment with new ones,

Government introduced Credit Linked Capital Subsidy Scheme with state support of 15 per cent of the store credit required to money the new purchase.

Conclusion:

Everything has two sides digitalization will prove very beneficial for MSMEs but there is dark side also. Actually many MSMEs are very far from the concept of digitalization. MSMEs are still in its infancy to use cashless economy. Digital payments keep the footprints ie proof; so many MSMEs are underreporting to avoid the tax. Digitalization brings transference in transactions but in reality they take more credit from the informal/ unorganized sources of loan. So it seems difficulty that MSMEs will opt for cashless economy. Cyber crimes and financial frauds are the major threats for MSMEs to trust on digital payment platform.

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