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Digital Transformation and Sustainability Challenges in Indian MSMEs: Emerging Pathways for Inclusive Industrial Growth

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ABSTRACT

MSMEs, or micro, small, and medium-sized businesses, are the foundation of the Indian economy and play a major role in exports, manufacturing output, and employment. Indian MSMEs face a variety of difficulties in a time of rapid technological disruption and globalization, despite their vital role in promoting inclusive growth. The present state, growth patterns, and sustainability issues that Indian MSMEs are facing have been examined in this study, along with the transformative potential of digital technologies. Based on MSME annual reports and secondary data from 2011 to 2019, the analysis shows strong expansion with notable gains in employment, fixed asset value, and gross output. However, these benefits come with enduring limitations, such as poor infrastructure, outmoded technology, restricted marketing capabilities, and insufficient credit availability. As the competitiveness gap between Indian MSMEs and their international counterparts grows, the study emphasizes the necessity of technological advancement and policy realignment. Additionally, the paper examines sectoral opportunities, with a focus on retail trade, textiles, and hospitality, all of which have significant growth potential. Existing inefficiencies are made worse by a lack of awareness of government programs, inadequate training programs, and inadequate entrepreneurial skills. The study suggests practical ways to overcome these obstacles, including skill development programs, expert consultation panels, enhanced access to financing, and reciprocal technology sharing. According to the study's findings, Indian MSMEs can significantly contribute to improving export performance, drawing in foreign capital, minimizing regional inequalities, and attaining sustainable economic growth with the right institutional support and digital technology.

Keywords: *Micro, Small and Medium enterprises, Challenges in Indian MSMEs, Technology, Industrial Growth.*

1. Introduction

Economic activity has rapidly become more globalized over the last two decades, and this process has made cross-border collaboration even more important for innovation. The innovation activity involves acquiring ideas, funding, skills, and technologies from other countries and utilizing their outputs, which include products and services, patents, licenses, and more in international markets. A large number of businesses, nations, and other economic players participate in the global economy today (Dey, 2014). A more effective distribution of resources among nations is being made possible by globalization, which is also increasing productivity, efficiency, average incomes, wages, competition, lower prices, and the variety and quality of products available. Globalization is lowering operating costs and giving businesses a stronger competitive position. In light of this, the BRICS (Brazil, Russia, India, China, and South Africa) nations have grown to be major players in the global economy. The Indian MSMEs have a strong desire to enter the international market and carve out a significant niche for their goods within the framework of the Indian economy. (Katyal & Xaviour, 2015).

The MSME sector in India is acknowledged as a significant driver of economic expansion. The Indian economy is said to be based on it. It has offered resilience in the face of adversity and shocks to the world economy. Almost 40% of India's workforce still finds work due to the nearly 20% of Indian MSME that are headquartered in the country's rural territories (V. Kumar, 2017). In 2015–16, the MSME sector employed over 117 million people across more than 51 million businesses, according to the Reserve Bank of India (2017). Over 8,000 different products, ranging from traditional items to technologically advanced goods, are manufactured by India's Micro, Small, and Medium Enterprises (MSME) sector, demonstrating a remarkable diversity in production powers. Significantly, the Indian coir sector, which operates under the MSME framework, is the world's largest coir producer, accounting for more than 80% of global production (Zanjurne, 2018). The industry's participation structure is diverse, including manufacturers, exporters, cooperatives, and households (Annual Report, Ministry of Micro, Small and Medium Enterprises, 2017–18). According to the Working Group on MSME Growth Report for the Twelfth Five-Year Plan (2012–2017), the industry makes a substantial contribution to the Indian economy, contributing roughly 40% of the nation's total exports and 45% of its manufacturing output. Additionally, the Ministry of MSME (2017) reported that the sector contributed 30.74 percent of India's GDP in the fiscal year 2014–15, highlighting its significant contribution to the country's economic growth. Indian economic forecasts indicate that the country is on track to achieve a GDP target of USD 5 trillion by 2025, with the economy expected to grow at an average annual rate of 7%. In this regard, the MSME sector's growth and modernization are not only desirable but also necessary, considering its well-established status as a pillar of the Indian economy (Gade, 2018). Nevertheless, the Indian MSMEs have faced certain limitations despite their strong growth rate and

promising future. The most significant obstacles include a lack of timely credit, the production of raw materials at competitive prices, inadequate water, power, and road infrastructure, and a shortage of skilled labor for marketing, manufacturing, services, and other areas. The biggest obstacle to date has been technological backwardness. The latest technologies available in the global market are frequently unknown to Indian MSMEs, who lack current information. Occasionally, they lack the technologically advanced education, entrepreneurial know-how, and managerial abilities necessary to operate a successful MSME. Typically, rural areas are where this kind of issue is most prevalent. According to Nanda et al., (2018) MSMEs may benefit more from information, communication, and technology (ICT) since they are up against more fierce competition from their neighboring countries (China, Indonesia, the Philippines, and Thailand). Therefore, technological upgrading is urgently needed. In order to become competitive, Indian MSME's must embrace the best international practices and continuously improve their technological capabilities. It is frequently discovered that the primary obstacle facing a large number of SMEs is developing the necessary management techniques and skills to establish and integrate knowledge produced by external partners with internal procedures and innovation processes (OECD 2013).

2. Literature review

The role that MSMEs play in a competitive environment has been the subject of several studies. Dalberg (2011) states that in economies that are part of the Organization for Economic Cooperation and Development (OECD), MSMEs make up more than 95 percent of businesses, 60–70 percent of all jobs, and 55 percent of GDP. Savrul et al. (2014) examined the detrimental impact that MSMEs' size has had on them. Nonetheless, e-commerce can assist MSMEs in overcoming the various barriers and challenges that restrict or prohibit them from entering the e-commerce market, allowing them to compete on a global scale. Since globalization entails risks, MSMEs are unlikely to endure in their current configuration. They must enhance their cost competitiveness, quality standards, and other management techniques (Hwang 2007). MSMEs are responsible for putting competitive business operations and strategies into place. The quality of markets, organizations, and institutions, however, affects the options available to MSMEs. Additionally, MSMEs are either encouraged or discouraged from incorporating new innovations into their business plans, comparing their competitive features to those of their competitors, and learning new business practices by the productivity and efficiency of the institutions, markets, and establishments. OECD (2004). Mukherjee (2001) provided an overview of the role of MSMEs, changes in the policy environment of MSMEs, challenges posed by various global forces, specific World Trade Organization (WTO) agreements in the context of MSMEs, and potential legitimate cover of protection under WTO rules and policy recommendations. The current global situation has become harsh for the Small Scale Industries (SSI) sector due to increased internal and external competition, according to Naik's (2002) analysis of the post-liberalization business environment for SSI. Subrahmanya (2004a, b) emphasized how domestic reforms and globalization affect the small-scale industry sector. The study recommended that in order to make the Indian small industry globally competitive, the emphasis should shift to technological advancement and the fortification of the financial infrastructure. Sudan (2005) outlined the difficulties in the development of micro and small businesses as well as the policy concerns that arise from various MSE-related questions. The study came to the conclusion that every policy the Indian government adopted was an attempt to create a vibrant MSE sector. Rathod (2007) assessed how globalization affected SSIs and noted the obstacles and limitations they faced. According to the study, a competitive environment, adequate infrastructure, good governance, streamlined legal and regulatory frameworks, and ample access to credit and financing are all necessary. Mali (1998) noted that in the current globalization environment, MSMEs and micro-businesses must contend with escalating competition. They must advance in the areas of management, marketing, product diversification, infrastructure development, and technological advancement in order to handle the current situation. Last but not least, new small and medium-sized businesses that are expanding from a region with slow growth to one with rapid growth must establish strategic partnerships with business owners in neighboring nations. Subrahmanya (2004) looked into how small-scale industries were affected by economic reforms. In order to compete on a global scale, it was suggested that India's small businesses advance technologically and strengthen their financial infrastructure. Shastri et al. (2011) examined how small-scale industries were affected by globalization and domestic economic liberalization, evaluating their growth performance in terms of output, employment, units, and exports. They ended by making policy recommendations to guarantee the competitive expansion and survival of India's small-scale industries.

3. Objectives of the Study:-

The major objectives of this study are as follows:-

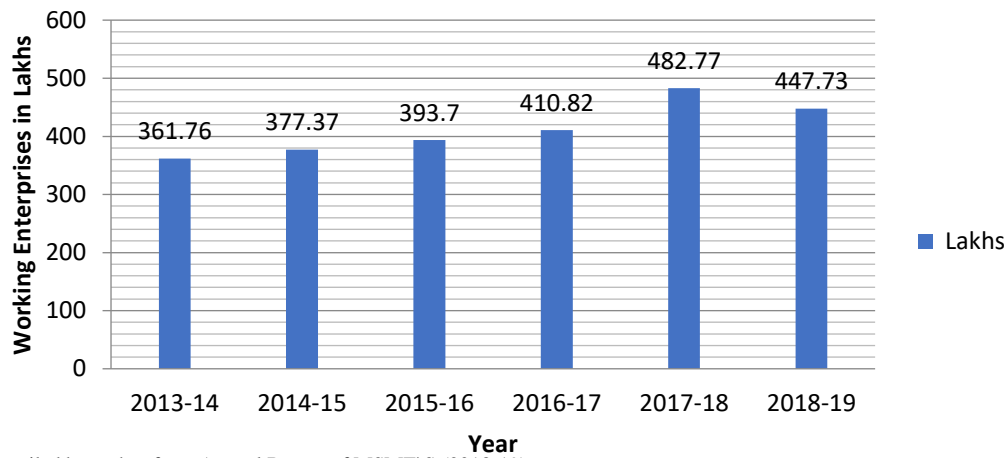
1. To know the present status of MSME'S in India
2. To know the problems and solutions related to MSME'S.
3. To know the prospectus of MSME'S in the development of Indian economy

4. Database and Methodology:-

Data used in the study are secondary in nature and mostly collected from the Annual Reports published by the Ministry of Micro, Small and Medium Enterprises. The study covers a period from 2011-12 to 2018-19. Three parameters such as number of units, gross-output, employment and investment fixed assets have been used for performance analysis of MSME .The other related information have been obtained from the personal interaction with the MSME'S owners where it was required.

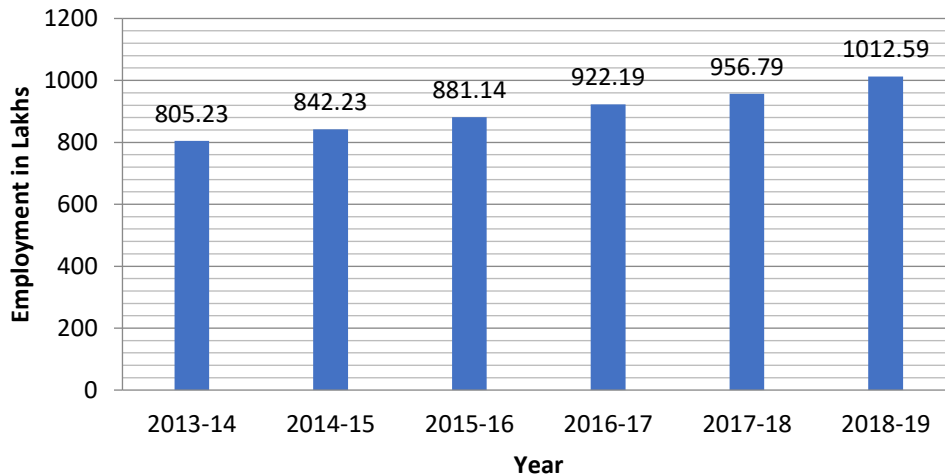
5. Analysis of Data:

(a) Total working enterprises of the MSMEs



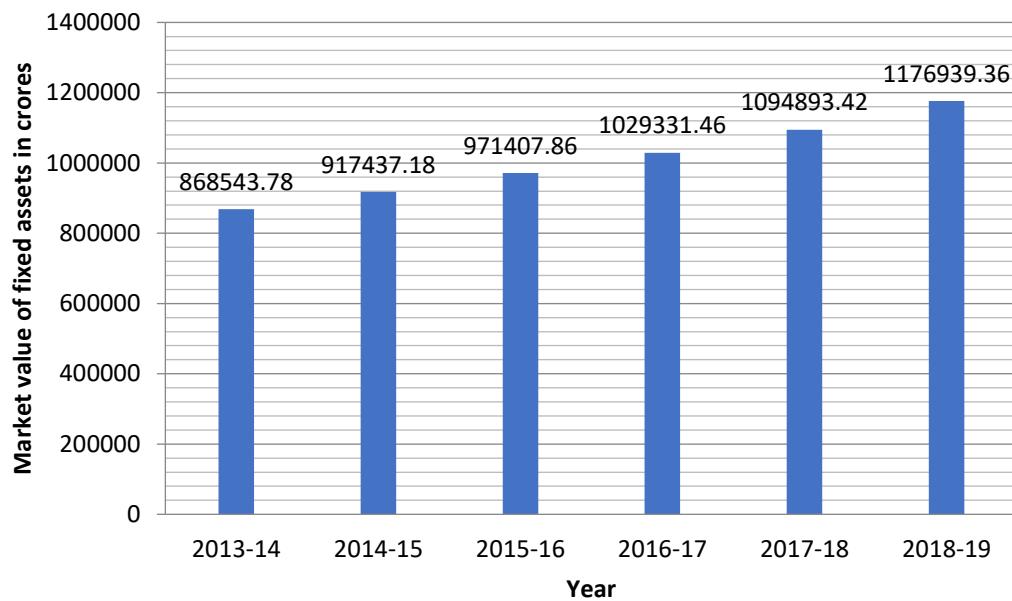
Source: Compiled by author from Annual Report of MSME'S (2018-19)

(b) Employment in MSMEs

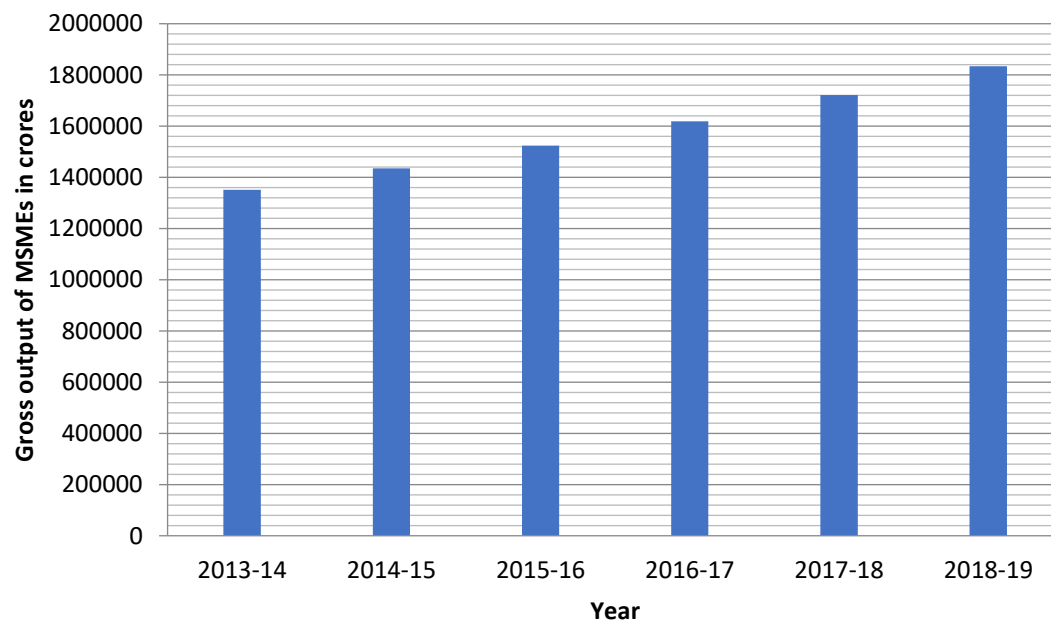


Source: Compiled by author from Annual Report of MSME'S (2018-19)

From the above data, the total working enterprises have increased by 18.64% from 2013-14 to 2018-19 and there is 20.23% attainment in the employment for the same period. So it is clear that the size of MSME'S is being larger than it was previously. Therefore, the MSME'S are providing more employment per unit. In 2013-14, there were 2.23 employees per MSME while in 2018-19 it is 2.26 per MSME.

(c) Market Value of Fixed Assets:

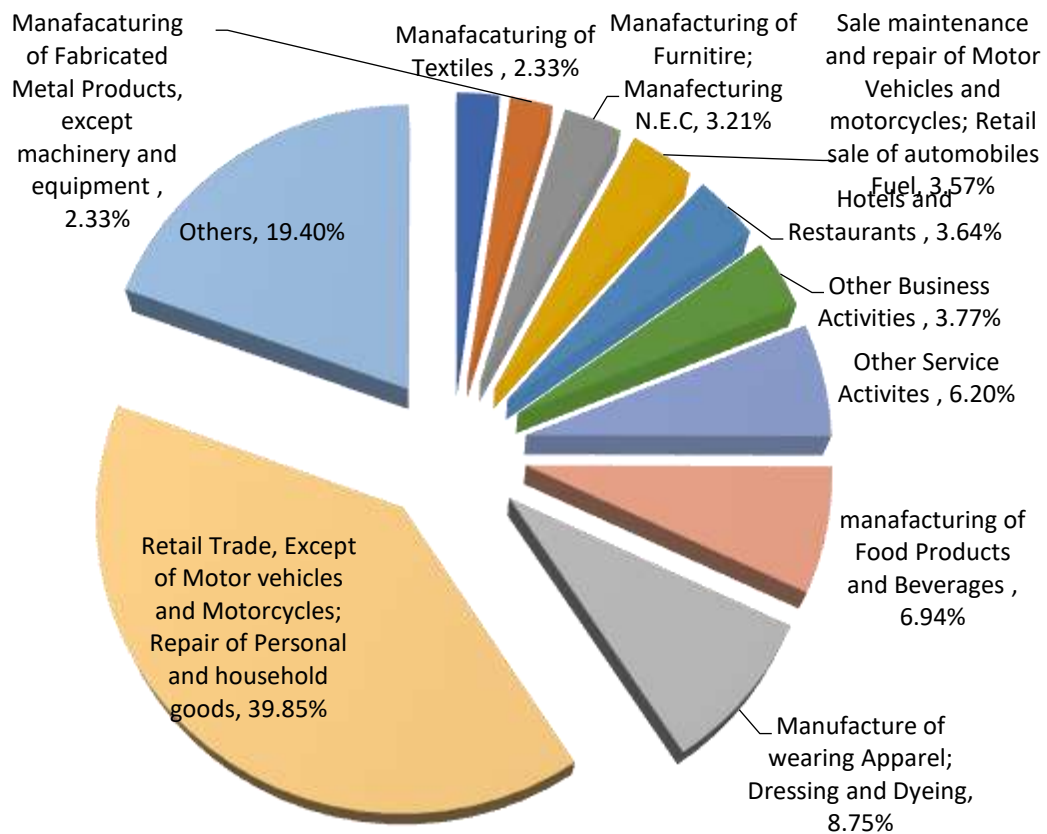
Source: Compiled by author from Annual Report of MSME'S (2018-19)

(d) Gross output of MSMEs

Source: Compiled by author from Annual Report of MSME'S (2018-19)

For the of 2014-15 to 2018-19 there is 28.29% growth in the market value of fixed assets while 27.81% growth in gross output produced by MSME'S. So there is a symmetrical change in the market value of market value of fixed assets and gross output of MSME'S. This symmetrical change reflects that the law of marginal returns is not being apply in the field of MSME'S. It indicates that many possibilities are available in the MSME'S

(e) Leading Sectors of MESE's



Source: Compiled from Annual Report of MSME'S (2018-19)

The above bar diagram shows that large no. of MME'S are engaged in retail trade, except of motor vehicle and motorcycles; repair of personal and household goods are 39.85% and in other sector are 19.40%. Therefore, there is so much potential available in the field of manufacture of textile and hotels and restaurants because nowadays in India these two field are very booming. Except these two fields, manufacturing of food products and beverages, manufacturing of wearing Apparel Dressing and Dyeing are beneficial for the point of view of return on investment. The above figure reflects that the MSME owners are not innovative and their entrepreneurial skills are very low. Ultimately, the government is not providing any types of satisfactory training or skill development schemes. The areas like sale and maintenance and repair of motor vehicles, manufacture of furniture, manufacture of fabricated metal products, except machinery and equipment are very responsive and needed some technical knowledge.

6. Problems of MEME's in India

Lack of credit from banks- The MSMEs are currently having trouble getting bank credit. The MSMEs are not receiving enough loans from the banks. The banks' loan-provisioning procedure is extremely drawn out and formal. To demonstrate their qualifications, the MSME owners must present a variety of documents. MSMEs are up against multinational manufacturing firms that offer high-quality products at competitive prices in the current globalization era. It is therefore very challenging to compete with multinational corporations.

Poor infrastructure- The infrastructure of MSMEs is extremely inadequate, despite their rapid development. Their production capacity is very low and their production costs are very high due to inadequate infrastructure. The MSME needs skilled labor and other inputs, such as raw materials, which are not readily available in the market. Producing goods at reasonable prices is extremely challenging due to the lack of these necessities.

Lack of advanced technology- MSME owners are unaware of advanced production technologies. Their production method is antiquated. When it comes to fabricated metal and textiles, the owners are still using outdated methods. The MSMEs are not embracing the new marketing channels. Their marketing and sales promotion efforts pale in comparison to those of the multinational corporations. A very low selling price is the result of inefficient advertising and subpar marketing channels.

7. Suggestions for improvement:

Mutual Supply of Technologies: Various industries have produced a number of technologies that are suitable for the MSME sector. Despite the fact that every MSME has its own advantages and disadvantages, it would be advantageous for both parties if previously developed technologies were made available. For the MSMEs that need it, a thorough inventory of all the technologies should be created and made accessible. To help MSMEs in the area transfer the available technologies efficiently, a panel of experts and consultants should be assembled for the purpose of technological advancement and guidance. When forming a panel of experts, the owners of various MSME sectors should be included. The composition of this panel of consultants may be based on the nature of the MSME's operations.

Determination of Technological Needs: To evaluate the technical and financial requirements of the MSME, a thorough survey should be conducted. In order for the appropriate arrangements to be made in order to meet the needs of the SMEs. It is imperative that the MSME ministry conduct training and development programs. The programs that are in place now are insufficient and ineffective. A significant contributing factor to the sluggish adoption of schemes is ignorance of the schemes and their potential advantages. The reach of the current system of knowledge dissemination is constrained. Utilizing modern media tools and improving communication strategies are imperative.

Sufficient availability of the credit- The amount of credit available in our banking system is insufficient to meet their needs for founding an MSME and for running their business. Credit must therefore be available in accordance with the requirements at a lower rate. The complicated labor laws should be loosened to prevent compliance issues. Labor laws should not be the same for all MSME. The company must be run smoothly so as not to cause them any trouble. Every effort must be made to steer clear of needless red tape. Research and development on innovative production and service delivery methods should be done properly. Products that are more innovative will be more affordable, and MSME's will be able to handle the situation.

8. Potentials in MEME's

The manufacturing and service-providing opportunities for MSME's are numerous. A significant number of jobs in the manufacturing and retail sectors have been created in recent years by MSME IS. By encouraging Indian MSME's, the rate of job creation increased. Customer satisfaction is the main focus of MSME production, which aims to meet the needs and expectations of its clients. MSME's can be more customer satisfaction oriented because they primarily manufacture goods based on the tastes, preferences, likes, and dislikes of local consumers. One useful tool for reducing or eliminating regional imbalances is the MSME. By operating MSME units in rural areas, the country's rural areas can develop equally. By employing workers from rural areas, MSME's will help to eliminate regional imbalance. India's exports may be increased through MSME's. Indian products are expected to be in high demand on the global market. Indian souvenirs such as kaleen, dari, wooden objects, and other handcrafted items are in high demand worldwide. However, the growth rate and return on investment of Indian MSME's are satisfactory, and the sector is booming. Compared to other economic sectors, this one responds more quickly. Thus, this industry may be able to draw in foreign capital to India.

9. Conclusion

The Micro, Small, and Medium-Sized Enterprises (MSMEs) of India are essential to industrial production, job creation, and regional growth. The MSME sector, which accounts for more than 30% of GDP and about 45% of manufacturing production, has grown steadily during the last ten years. Nonetheless, the industry has to contend with issues like technical lag, especially in rural and semi-urban regions, which impedes innovation and the ability to compete with competitors from across the world. The report makes several important recommendations to address current barriers, such as creating platforms for MSMEs to share technology, assembling panels of experts to help with digital integration, and carrying out focused surveys to identify the financial and technological requirements of particular industries. The existing system of training sessions and awareness programs has to be completely redesigned, and government programs have to be distributed via creative means of communication. Additionally, financial changes are required to assist small businesses who are facing capital limitations. Making credit more accessible at affordable interest rates and streamlining the loan application process may be quite beneficial. MSMEs can benefit from labor law reforms that streamline bureaucratic red tape and promote the formalization of additional units. Stronger ties between MSMEs and research institutions, as well as research and development investments in technical innovation tailored to MSME, are essential for long-term viability. Food items, textiles, drinks, and handcrafted goods are examples of industries with high return on investment and export potential. However, MSMEs must engage in brand development, embrace contemporary marketing and distribution methods, and become more customer-centric if they are to fully take advantage of these prospects. The results demonstrate that MSMEs may significantly reduce regional disparities via fostering entrepreneurship in rural and semi-urban regions, creating jobs locally, lowering rural-urban migration, and supporting decentralized economic growth.

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