

# Digital Transformation of Indian SMEs, Challenges and Opportunities

Nagarjuna Pitty<sup>1\*</sup> and M. Krishna Murthy<sup>2</sup>

<sup>1</sup>Principal Research Scientist, JRDTML Indian Institute of Science, Bengaluru, Karnataka

<sup>2</sup>Joint Registrar, (F&A) Indian Institute of Science, Bengaluru, Karnataka

\*Corresponding Author Mail Id: [nagarjuna@iisc.ac.in](mailto:nagarjuna@iisc.ac.in)

## Abstract

*Digital transformation in India's Small and Medium-sized Enterprises (SMEs) made a significant transition. Emergence of digital technology has opened possibilities for improvement in productivity, reaching the unreached, and data-informed decision. To effectively reap the benefits, however, SMEs must overcome obstacles including cybersecurity, data privacy, regulatory compliance and scarcity in resources. Study shows rising trends in digital adoption, the benefit to competitiveness and market development. The promotion of digitalization is mostly due to government efforts. Adoption of digital technologies, policy and support from governments, availability of digital infrastructure, digital skills and market performance are all factors evaluated in the study. The study result stresses the importance of digital adoption for SMEs and suggests that governments maintain their commitment to digital transformation. For India's SME sector to maintain development and competitiveness, investments in digital infrastructure and digital proficiency among its employees are essential.*

*Keywords: SME, Challenges, Opportunities*

## 1. Introduction

Digital transformation emerged as important force in reshaping business sector, especially in SMEs sector. The First Prime Minister of India Pandit Jawaharlal Nehru once said these SMEs are backbone to the Indian economy. They face many challenges to adopt digital technologies due to limited resources on hand. Despite their substantial contribution to economic advancement they frequently face impediments to its growth (Leso et al., 2022). The major constraints to the growth of MSMEs include adoption of new technology, obsolete technology, high informality, limited access to credit, restricted economic and social opportunities, restrained enterprise growth, shrinkage in demand, delayed payments, limited access to market, and lack of availability of skilled workers. These problems are multi-dimensional in nature and require coordinated collective action to reignite the MSME sector

to achieve its potential growth by embracing new technology to enhance the productivity & employment. This paper begins with digital transformation on SMEs in India, brings out many opportunities and challenges inherent to this transformation and the Government of India Policy towards SMEs.

In the digital era SMEs face a mix of opportunities and challenges. Digitalization enables them to streamline their processes, reduces costs, reach wider markets of national and international through digital platforms such as E commerce & M commerce, improves revenue stream, improve operational efficiency, and enhance customer engagement and personalised service to their customers. However, they also encounter hurdles like limited resources, technological barriers, and cybersecurity risks.

Recent research shows the fast trend of adoption digital technology among Indian SMEs (Das & Shukla., 2018) emphasize the increased adoption of digital technologies such as E commerce, and cloud computing to improve the efficiency and competitiveness (Singh et al., 2021).

## **2. Opportunities**

- **Streamline operational process:** By adopting Artificial Intelligence (AI) and Machine Learning (ML) SMEs can automate tasks, streamline their production and other operational process to the optimum level, so that the enterprise can achieve maximum benefit to the owners and stake holders (Sharma & Kumar, 2020).
- **Expanded Market Reach:** Online platforms, e-commerce and M commerce tools allow to access customers beyond their local geographic boundaries, increasing sales potentials and brand visibility.
- **Enhanced Customer Engagement:** Digital tools like CRM systems and personalised marketing strategies help SMEs build stronger relationships with customers, improving satisfaction and loyalty (Kapoor & Yadav, 2021).
- **Data-Driven Decision Making:** Access to data analytics and insights enables SMEs to make more informed decision about product development, marketing strategies, and overall business operations (Sengupta & Chatterjee, 2017).

- **Innovation and Agility:** Digital technologies facilitate rapid prototyping, testing and adaption to changing market conditions, fostering innovation and enabling SMES to respond quickly to new opportunities.
- **Financial Inclusion:** Online banking solutions can improve access to financial services, manage cash flow and reduce transaction costs for SMEs.
- **Cost Reduction:** Cloud-based solutions, digital marketing and automation can significantly reduce operational costs, making businesses more competitive.

### 3. Challenges

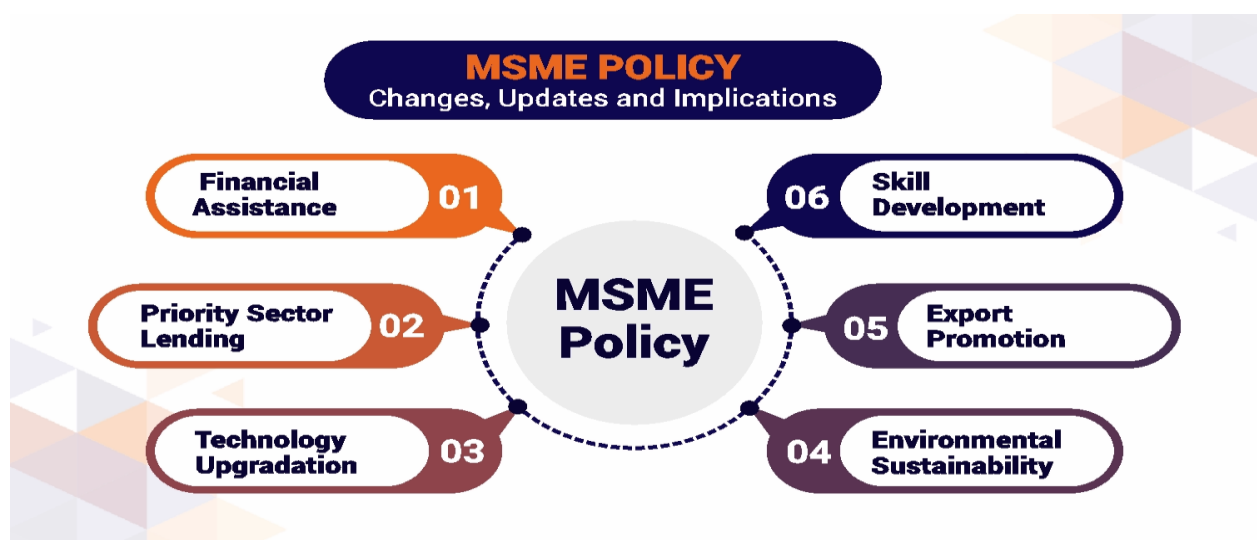
Despite better prospects, Indian SMEs face many challenges on their way to adopt digital technology (Gupta et al., 2018)

- **Limited Resources:** SMEs often struggle with limited financial resources, technological expertise and human capital to implement and manage digital solutions.
- **Technological Barriers:** Lack of access to fast internet, compatible software, and appropriate infrastructure can hinder digital transformation.
- **Cybersecurity Risks:** Increased reliance on digital systems exposes SMEs to data breaches, malware attacks, and other cybersecurity threats (Verma & Reddy, 2021).
- **Legacy Systems:** Integrating new digital technologies with existing, outdated systems can be complex and costly (Joshi & Singh, 2020).
- **Digital Skills Gap:** Many SMES lack the necessary digital skills and expertise to effectively utilise new technologies and manage digital transformations.
- **Change Management:** Overcoming resistance to change within the organisation and ensuring employee buy-in for new digital processes is crucial.
- **Data Security and Privacy:** SMEs need to comply with regulations like the PDP law in Indonesia regarding data protection and privacy (Bansal & Kapoor, 2019).
- **Maintaining a Digital Presence:** Creating and maintaining an effective online presence, including website development and social media management, requires ongoing effort and resources.

- **Adapting to Evolving Technologies:** The rapid pace of technological advancements requires SMEs to constantly update their knowledge and skills to stay competitive.
- **Cost of Digital Transformation:** Implementing digital solutions can be expensive, especially for smaller businesses with limited budgets.

#### 4. SMEs Policy of the Government of India

The Small, and Medium Enterprises (SMEs) sector is a vital engine for India's economic growth, contributing to employment generation, innovation, exports, and inclusive development. Recognizing this, the Government of India has formulated a comprehensive SMEs policy, primarily through the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, and its subsequent revisions and various supporting schemes.



#### Objectives of the Policy

- Promoting inclusive economic growth: Empowering businesses in both urban and rural areas to contribute to national development.
- Creating employment opportunities: Fostering job creation, particularly in rural and semi-urban regions.
- Encouraging entrepreneurship and innovation: Cultivating a culture of starting new businesses and supporting the development of innovative products and services.
- Ensuring financial inclusion: Facilitating easy access to credit and financial resources for MSMEs at reasonable rates.

- Enhancing competitiveness: Enabling MSMEs to compete effectively in both domestic and global markets through technology upgradation, skill development, and market access initiatives.
- Promoting regional development: Driving industrialization and socio-economic development in backward and underserved regions.

### **Recent Updates and Revisions**

- The Union Budget 2025 announced a significant revision to the MSME classification criteria, increasing the investment limits by 2.5 times and turnover limits by 2 times, respectively.
- The Credit Guarantee Scheme was revamped in 2023, increasing the guarantee ceiling and reducing the annual guaranteed fees.
- PM Vishwakarma scheme launched in 2023 provides end-to-end support to artisans and craftspeople through training, financial assistance, and access to modern tools and techniques.
- The Emergency Credit Line Guarantee Scheme (ECLGS) was introduced in response to the COVID-19 pandemic, providing collateral-free loans to MSMEs.
- Initiatives like Make in India, Startup India, and Atmanirbhar Bharat Abhiyaan promote domestic manufacturing, innovation, and self-reliance, significantly benefiting MSMEs.
- The National SC-ST Hub scheme aims to promote entrepreneurship among Scheduled Caste and Scheduled Tribe entrepreneurs and fulfil public procurement mandates.

These policies and initiatives are continuously evolving to create a more inclusive, competitive, and supportive ecosystem for MSMEs, recognizing their crucial role in India's economic journey towards sustainable development and global competitiveness.

### **5. Conclusion**

On the preceding discussion, it is recommended that SMEs in India should prioritize adoption of digital technologies to boost competitiveness and market performance, while policymakers must further develop supporting digital transformation through incentives and infrastructure improvements. Expanding digital infrastructure for SMEs will foster wider digital adoption and economic growth. Additionally, SMEs should invest in tailored training programs to enhance digital competency among their workforce, ensuring they possess the necessary skills for the digital era.

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