

Bridging the Gap: How Technology Is Helping Mid-Size Businesses Grow in India

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ABSTRACT

This paper explores how digital tools are shaping the growth of Micro, Small and Medium Enterprises (MSMEs) in India. It examines the impact of technologies such as digital payments, e-commerce platforms, and ERP systems on business performance, employment, and market access. Using secondary research, analysis of published reports and recent case studies, the study highlights how adoption of digital tools supported by government initiatives has helped MSMEs become more resilient, improve productivity, especially post-COVID-19. While progress is evident, challenges such as limited digital infrastructure and educational and structural barriers remain. The paper concludes with suggestions to support broader, more inclusive digital growth in the sector.

Keywords: MSMEs, Digital tools, E-commerce, ERP systems, Digital payment methods

Introduction

The Micro, Small and Medium Enterprises (MSMEs) sector is a crucial component of India's economy and plays a significant role in the socioeconomic development of the country. MSMEs have contributed approximately 30% to the GDP in 2016-17 and the unincorporated non-agriculture MSME sector has employed about 11.10 crore people according to the National Sample Survey (NSS) conducted by the Ministry of Statistics and Program implementation (MoSPI). Additionally, MSME related products have accounted for a substantial portion of India's total exports, reaching 48.10% in 2018-19. The NSS report has further indicated that E-commerce platforms have facilitated exports especially in the MSME sector and digital payment modes such as mobile payments and digital wallets were the most frequently used payment modes by MSMEs.

While this sector has faced severe challenges during the COVID 19 pandemic with over 67% of the MSMEs having experienced shutdowns, facing significant revenue loss and reduced employment (SIDBI report) the recent trends suggest that digitalisation of this sector may potentially serve as a catalyst for the growth and expansion of this sector.

This paper relies on secondary data analysis of published reports and literature review to assess the impact of digital technologies such as E-commerce, digital payment modes and digital tools like Enterprise Resource Planning (ERP) systems on the growth of MSMEs particularly productivity, market access and job creation.

Background:

The definition of MSMEs has been revised twice in the last 5 years by the Indian Government, one in 2020 and another in 2025. According to the MSME development act 2006, and its amendment in 2020, MSMEs are classified as per annual turnovers as well as investment in plant and machinery or equipment. As per the 2020 criteria, micro enterprises are defined as those with an investment of up to ₹1 crore and an annual turnover not exceeding ₹5 crore. Small enterprises have an investment between ₹1 crore and ₹10 crore, with turnover up to ₹50 crore and medium enterprises include those with investments between ₹10 crore and ₹50 crore and turnover not exceeding ₹250 crore (India Brand Equity Foundation, n.d.). According to the Press Information Bureau (2025), the revised MSME classification criteria announced in the 2025–26 Union Budget, raised investment thresholds to ₹2.5 crore for micro-enterprises and ₹25 crore for small enterprises, and 250 crore for medium enterprises, significantly increasing their access to credit and scale economies. For the purposes of this study, the classification criteria adopted for secondary data analysis will be based on the 2020 amendment to the MSME Development Act. Given the recency of the 2025 revision, the secondary data analysing the sector with the updated criteria is not yet available, making it unviable for comprehensive analysis at this stage.

The MSME sector spans manufacturing and service industries. The sector includes traditional industries like textiles and handicrafts, manufacturing industries like engineering and fabrication, food processing (including agriculture) and pharmaceuticals, service industries such as IT services, hospitality and tourism, digital marketing and healthcare, other industries that include wholesale and retail trade, construction, transportation and much more (SIDBI report; Rao & Noorinaasab, 2013). MSMEs are significant to the growth and socioeconomic development of India and add value through large scale employment generation with relatively low investment, crucial contribution to the GDP (30% as of NSS report 2016-17) and significant contribution to the export potential (48.9% of India's total exports in 2019-20, according to the NSS report). Additionally, they strengthen the supply chain support as MSMEs also manufacture intermediate products and supply to large scale industries, thus reducing dependency on imports, reinforcing

industrial supply chains and increasing efficiency. MSMEs also help foster inclusive and equitable growth, as MSMEs exist in rural and isolated areas and the decentralised structures provide opportunities to communities that are socioeconomically marginalised, hence reducing the socioeconomic gap between rural and urban areas. Moreover, MSMEs also drive rural industrialisation by fostering entrepreneurship and reducing the reliance on urban centres (Kalaiselvi, Maithili, 2024).

One of the key aspects to be observed with respect to the MSMEs sector is the adoption of emergent methodologies such as the use of social media, collaboration with E-commerce platforms, incorporating digital payment gateways and ERP tools, towards achieving better productivity (Shah, et al, 2024). With the advancement of artificial intelligence (AI), data analytics and Information technology, in the recent years, digitalisation has supported business enterprises in reaching a wider customer base, incorporating user data analytics to make decisions and improve efficacy, and enabled faster and efficient work through digital tools like logistics services, fintech tools, inventory management and digital payment systems (Pandey et al, 2024).

Prior to the COVID-19 pandemic, digital tools and methodologies were not exercised within the MSME sector, due to low rates of digital literacy, high costs and lack of awareness about the digital tools (SIDBI report, 2025). Understanding the significance of digitalisation to the MSME sector, The Government of India, has introduced various schemes and policies to support the digital transformation within the MSME sector. The Government of India has introduced the digital MSME scheme, which is a part of MSME champions scheme, aimed at subsidising usage of Information and communication Technology (ICT) tools for the Micro, Small and Medium Enterprises (India Brand Equity Foundation, n.d, Press Information Bureau, 2021). Additionally the Government also has introduced the Udhayam registration portal, which serves as an access point to government schemes and financial support for the MSME sector (India Brand Equity Foundation,n.d).

Owing to the flexibility and resilience of the enterprises (Kalaiselvi and Maithili, 2024) and potentially with the support of government schemes and policies, and due to need to adapt post COVID 19 disruptions, a CRISIL survey report has shown a 44% increase in digitalisation of Micro enterprises, 39% increase in small enterprises and 36% increase in manufacturing MSMEs and 44% increase within service MSMEs (ASSOCHAM & CRISIL, 2025). However, despite the progress, structural barriers exist, the digitization trends are uneven across the MSME landscape, owing to barriers such as unequal access to digital literacy, finances and lack of skilled labour particularly within micro and rural based enterprises (SIDBI, 2025; PIB, 2025). It is evident from the above trends that there are immense potential and challenges in digitalisation of MSME sector in India.

Discussion

Building on the above context, this section delves into detailing the ways in which digital tools support the development of MSMEs in India specifically, the impact of these tools on productivity, market expansion, employment, and financial access.

Digital payments and business growth

One of the most visible changes in the Indian Economy has been the rise in digital payments. Digital payment gateways such as BHIM UPI, Paytm, Google Pay has enabled businesses to receive cashless transactions from consumers, which has enabled faster transactions and efficient record keeping. Gupta and Chauhan (2021) have found that such payment methods reduce transaction time and better record keeping and hence strengthening credit eligibility.

Digital payments also support formalisation of MSMEs and which in turn enables easier access to government schemes and policies. According to The Reserve Bank of India (2022), businesses that access digital transactions show stronger growth patterns and improved tax compliance.

A study examining data from around 4000 retailers from across India, shows that 90% of retailers pay their vendors digitally, both rural and urban retailers expect more than half of their customer transactions to be through digital payments in the next few years. Additionally the study also showed that in cities like Bengaluru, UPI transactions rose by 14% and significantly in the semi urban areas as well. The study also concluded that more than 50% of retailers believe that online transactions allow them to grow their business (Neogrowth, 2023).

E Commerce and market expansion:

E Commerce platforms such as Amazon, Flipkart, Meesho, IndiaMART, etc. have enabled MSMEs to expand to a customer base far beyond their local markets, spanning throughout India and internationally. This shift was particularly evident during the COVID-19 pandemic when the lockdown was imposed and physical shops were closed and online mode became a lifeline (Vandita & Srivatsava, 2023).

A study by Kumar et al. (2022) found that MSMEs availing ECommerce platforms saw around 30% growth in sales. Accessing E-commerce platforms adds value to the businesses by offering services like logistics, advertising and customer support, which are functions that most Micro and small businesses may not be able to manage independently. A case study mentioned by The ministry of Electronics and Information Technology (2023) highlights a textile enterprise in Surat, which after integrating into an E-commerce platform, expanded its consumer base internationally, and all over India, scaling its growth.

ERP systems and daily efficiency

Enterprise Resource Planning (ERP) systems are tools that help businesses streamline multiple operations including but not limited to inventory, sales, finances, and Human Resource Management. While these are largely used by large scale industries, cloud based ERP systems have made these tools more accessible to MSMEs (Deshmukh et al, 2015). In their study, Patil and Sharma (2020), observed that ERP softwares significantly reduce manual errors, improves time efficiency and reduces overhead costs by real time inventory tracking and enhanced operational planning.

To facilitate the transition towards adoption of ERP tools within the sector, The Government of India has provided subsidies for cloud based ERP tools, under the Digital MSME scheme. The National Association of Software and Service Companies (NASSCOM, 2023) reported that MSMEs using ERP tools demonstrated higher growth rates and improved efficiency compared to those relying on manual or fragmented processes.

Government support and policy interventions:

Schemes and policies introduced by the Indian Government have demonstrated support towards promoting digital tools for MSMEs. Initiatives such as Startup India, Digital India, and Udhm portals have enabled easier registration for businesses, improved access to loans and enhanced the access to further support online. For example, the MSMEs which had integrated digital payment methods found it easier to access emergency funds through the Emergency Credit Line Guarantee Scheme (ECLGS), launched during the pandemic (Ministry of Finance, 2022).

Additionally, the Open Network for Digital Commerce (ONDC) scheme, seeks to prevent the dependency on private E-commerce platforms by providing retailers with alternate options. Despite government efforts, there are several Micro and rural area based enterprises in India that are yet to join the digital economy due to lack of ICT infrastructure, lack of access to internet, lack of ground level implementation of the government schemes and policies, lack of literacy and cyber security concerns. Addressing these infrastructural challenges and educational barriers is crucial to an equal growth within the sector (Sengupta & Joshi, 2022; Prakash et al, 2021).

Job creation and upskilling

It is a common myth that digitalisation will reduce the opportunities for employment for people. Contrary to this belief, it can lead to creation of newer roles. The International Labour Organisation (2023) has noted that enterprises that use digital tools provide training to their staff on digital marketing, customer data and handling devices.

However, digitalisation without a strategic implementation of training, might lead to deepening of the existing socioeconomic disparities. Most of the low-skilled workforce is employed in the MSME sector and often are employed seasonally and lack digital literacy. Digital transformation within the sector is possible only with workforce development, addressing economic and educational barriers, through working with educational institutions to teach managerial skills, digital literacy and technical skills thus reducing the disparities between low skilled and high skilled workers (Pandey et al, 2024).

Conclusion:

It is evident that integration of digital tools is vital to the growth of MSMEs in India with respect to market expansion, productivity and streamlining operations. Case studies and secondary research indicates that adopting digital tools enables formalisation, improves access to resources and facilitates resilience during economic crises such as the COVID-19 pandemic (Gupta & Chauhan, 2021; Ministry of Electronics and Information Technology [MeitY], 2023; Kumar et al., 2022).

Government schemes and policies are instrumental to the process of digitalisation of the sector, and at the same time there is a need for improving equitable access to resources, structural changes and action plans towards reducing disparities within the sector among rural, semi urban and city based enterprises (Patil & Sharma, 2022).

Moving forward, the success of digital transformation within the MSME sector, will depend on addressing these foundational barriers. Investment in digital infrastructure, particularly high-speed internet access and affordable, localised training initiatives must be scaled up. Simplifying the digital onboarding process, reducing regulatory barriers, and encouraging collaboration with private technology providers can significantly improve access to advanced tools such as cloud-based ERP systems, artificial intelligence, and data analytics for smaller enterprises (NASSCOM, 2023; Patil & Sharma, 2020).

If implemented holistically, these interventions hold incredible potential not just for improving productivity and competitiveness, but for improving inclusive economic growth and job creation. With thoughtful policy support, greater technological awareness, and sustained innovation, MSMEs can become more resilient, globally competitive, and digitally empowered contributors to India's economic future.

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