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Digital Transformation as a Turnaround Strategy for Micro-Enterprises

Dr. Y. M. Satish[*], Dr. P.V. Raveendra[**], Mr. Jayanth M[***]

* Professor, Department of Management Studies, Ramaiah Institute of Technology, Karnataka, India;
** Professor, Department of Management Studies, Ramaiah Institute of Technology, Karnataka, India;
*** Student, Department of Management Studies, Ramaiah Institute of Technology, Karnataka, India;

Abstract Micro-Enterprises are one of the major contributors to the nation's GDP. Many reports and newspaper articles suggest that micro-enterprises are struggling to compete with modern technology and going forward technology-driven enterprises have a better edge to sustain in the market. So, the study A Study on Digital Transformation of Micro-Enterprises was undertaken. The Research aimed to study the current digital transformation position, problems faced by the micro-enterprises to integrate modern technology, factors influencing the drive, and finally to know whether the transformation has a positive effect on key performance indicators of enterprises. The study is of Descriptive Research type and Primary Data is used for the analysis. A questionnaire was designed to capture all the necessary primary sources of data and a survey has been conducted across the city of Shivamogga. The Study has found that most of the enterprises are in Level 1 of the transformation phase and the factors influencing the transformation and problems faced by the enterprises during this process. The report contains a few recommendations to improve the pace of transformation. Finally, the Study was successful, and the results shown in this report are reliable for future use.

Keywords Digital transformation, Micro-enterprises, MSME,

1. INTRODUCTION

Micro, Small, and Medium Enterprises are the backbone of the Indian economy as they contribute around 29% of the Indian GDP. MSME contributes about 49.5% of the total exports of India during FY 2020-21.

According to the article published by the Central Statistics Office, Micro and Small enterprises generated more than 5.95lakh employment opportunities in FY 2020-21 alone. Overall MSME[1] sector has created more than 12cr employment opportunities in India and the projected employment figures to reach 15cr in coming years.

According to the Ministry of MSME, enterprises in India are classified into three categories based on turnover and investment in plants and machinery. The enterprise should satisfy the below conditions if it needs to be recognized under the MSME sector,

Table 1: Classification of Enterprises in India.

a. Micro Enterprise	b. Small Enterprise	c. Medium Enterprise
Investment in Plant and Machinery or Equipment, not more than Rs.1 crore and Annual Turnover not more than Rs. 5 crores.	Investment in Plant and Machinery or Equipment Not more than Rs.10 crore and Annual Turnover not more than Rs. 50 crores.	Investment in Plant and Machinery or Equipment Not more than Rs.50 crore and Annual Turnover not more than Rs. 250 crore.

In India, MSMEs have grown at a CAGR of 18.5% from 2019 to 2020 and there are 633.88 lakhs MSMEs actively operating till FY 2020 – 21 (Annual report Ministry of MSME, 2020-21). The Ministry of MSME has recognized around 630.53lakh Micro Enterprises, 3.31lakh Small enterprises, and 5000 Medium enterprises across the country. These Facts and Figures help us to

understand the importance of MSMEs. MSMEs are significant contributors to the nation's economy and its overall development by creating employment and utilizing regional resources. Thus, making it a key sector for the Government of India. The Government of India in collaboration with the State Government and other development organizations has introduced many schemes and facilities to nurture the growing industry.

In recent years MSME sector took a hit due to the Covid – 19 Pandemic, an invasion of corporate with more advanced digital business models. Among the three categories, Micro-enterprises suffered huge losses. A lack of Digital transformation was evident for those losses. Despite promoting the digital economy by the Government of India many micro-enterprises were reluctant to adopt new technologies to transform their business. As mentioned, earlier there are around 6.30cr micro-enterprises recognized and registered across India. It is evident that the majority of the business are micro-enterprises, and these are the backbone of the Indian MSME sector. So, this study aims to find possible explanations regarding the status of digital transformation.

1.1 Digital Transformation - Digital Transformation is defined (Verhoef et al., 2021) as a change in how an enterprise employs digital technologies, to develop a new digital business model that helps to grow and create value for the enterprise.

1.2 Benefits of Digital Transformation - Digital Transformation is beneficial in many aspects few related to the business part are listed ("Benefits of Digital Transformation", 2022),

a) Low cost of production as it removes redundant links in between the process.
b) Reduces Processing time while raising loans and credits.
c) Improves the efficiency of the business system by incorporating automation techniques.
d) Eco-friendly Enterprise – Reduced usage of papers and physical documents.
e) Human errors can be reduced by implementing a digital process for repetitive tasks.
f) Improves Customer Engagement – Helps to understand, reach, and cater to customer needs effectively.
g) Decision Making – Helps to analyze and answer complex business problems using available data.

2. LITERATURE REVIEW

Härting [1] et al., developed a paper by referring to many articles and journals and the objective of the study is to identify the risk and chances, and finally to find how digitalization impacts companies' profits. This paper deals with the emerging digitalization concept in the business world. The author defines digitalization as the transformation of signals and media objects (e.g., documents, images, or sounds) into a digital form that is processed, stored, and transmitted through digital devices and networks caused by the adoption of digital technologies and the application of systems. The paper categories digitalization-based intensity of technology adopted: Website (the pure center for information), E-Commerce (technology-driven sales channel), and E-Business (the business process integration to new business models with virtual products and/or services). The research method involves the development of a qualitative model based on the methodology of Grounded theory by Glaser. They conducted an online survey to collect data from IT experts of a sample size of 72 in Germany, Austria, and Switzerland. The interview question was designed to capture the definition of digitalization by experts' expertise, skill, company, department, and location. The study concludes that digitalization can positively impact company efficiency, mobility, and innovation, and concerns over data privacy, company size, and human integration.

Bai C[2] et al, the paper discusses the problem faced by the MSME sector during the recent pandemic. The author elaborated on the vulnerability of the MSME. The sector with less than 50 employees or a majority of family-run enterprises has taken a hit due to the lack of adaptation of a robust digital business model. The author has listed a few problems like imposition and exports, lack of technology involvement in transportation(still using paper to conventional methods to deliver goods), and lack of proper

knowledge on digital payments and internet banking facilities. They also discussed the issues with environmental compliance as MSEs are also one of the primary sources of environmental pollution. The paper tries to answer some of the difficulties faced by them, as they could strengthen their sustainability transformation during this crisis through Home telework, virtual conferences, and online shopping that is gaining popularity in case of food supply chain MSEs—such as restaurants, cafeterias, and retail enterprises, operate remotely and allow online ordering, picking up, and delivery. The author has advised Small Businesses to incorporate Enterprise resource planning(ERP) and Customer Relationship Management tools and software as progress toward digitalization.

Trzaska[3] et al., The objective of this study is to develop a theoretical model combining different digitalization strategies and business models. The paper focuses on the energy sector to solve the uncertainty about the digitalization of the energy sector. The Paper aims to find solutions to implement industry 4.0 strategies. The research method adopted was based on research Hellwig's reference method used in management sciences and the presented managerial implications and used secondary data for analysis. The study concludes that the theoretical model deviates from the actual transformation model.

Ulas[4] et al., have studied the factors driving Digitalization in turkey. They defined Digitalization Transformation as an income creation strategy, application of a flexible management model to fight competition, timely meeting of changing demands, a process of reinventing a business to digitize operations and formulate extended supply chain relationships; functional use of the internet in design, manufacturing, marketing, selling, presenting, and is a data-based management model. They identified digital economy, globalization, industry 4.0, Artificial Intelligence and machine learning, 3D printing technology, Nano Materials, Blockchain, Cloud Computing, Augmented reality, Usage of smartphones, IoT, Advancement of technology and innovation, sensor technology (ST), Change in business practices with the internet economy, and electronic commerce as driving factor for Digitalization. In concluding their study, they advised: owners of small-scale businesses to decide and adopt technology transformation and to create the road map of transformation, and Government to take initiative to support and develop awareness among small-scale entrepreneurs.

The author of this paper (Ahmed[5] et al.,) has conducted a questionnaire-based survey to find out the impact of demonetization, implementation of GST, and the Covid-19 pandemic on the digital transformation of MSMEs. The researcher has prepared a questionnaire consisting of multiple-choice questions and 5 Point Likert scale questions and performed Data analysis using IBM spss Software to find meaningful full insights from the data collected. The Primary data has been collected data from the sample size of 274 rural enterprises using the interview method. The purpose of the study is to give IT Companies and Governments an idea of the level of digitalization, and problems faced during the transformation by the small-scale business and to develop products/strategies or schemes to overcome those problems.

The study discusses the problems faced by MSMEs with the implementation of GST and Demonetization due to the lack of digitalization. Finally, the study concludes that among the three major events Pandemic has more impact on the performance of MSME as this led to the complete closure of businesses than the problem faced by the demonetization and GST implementation. The next most difficult event was demonetization, but it eventually led to digital transformation lastly, the implementation of GST also played role in the Transformation.

Mukherjee[6] et al., in their study, aimed to determine the challenges faced by MSMEs concerning technology. The research took the coir industry as a focus area and collected secondary data for analysis. They found that the Absence of appropriate technology will reduce the potential of MSMEs, lower the demand, inferior quality, and lower profit margin affects the growth of MSMEs in the coir industry. To reduces this issue the author suggests that small enterprises adopt indigenously developed technology at a lower cost, to avail benefit from Government schemes. Finally, the study concludes that investing in research and development with technology up-gradation will

certainly help coir and other MSME industry in the growing digital economy.

Bhoganadam [7] et al, the objective of this paper was to study and examine the MSMEs' role in India, the issues and challenges faced by SMEs in India, and to develop a review of the literature matrix model to construct a conceptual model linking issues and challenges. The author of this paper referred to 19 journals and articles and categorized the issue faced by MSMEs into production, marketing, finance, Human resources, and external factors. Bhoganadam et.al concluded that the MSMEs are facing two types of challenges: External and Internal. In their study, they have discovered three external factors (legal systems, Forecasting the market conditions, environmental factors including political, legal, social, and economic factors, and socio-cultural environmental factors) and five internal factors (infrastructure and facilities, production and control, Finance and budgeting, Human resource, and marketing) that have bothered MSME growth in India.

Dr. Uma Shankar[8] in her paper titled Digital Economy in India: Challenges and Prospects have studied the digital environment of India till 2017 and briefly explained it with the help of facts and figures. The author defined a digital economy as one in which all the transactions are done using cards or digital means. The objective of the study was to identify the benefits, challenges, and RBI and Government Measures to encourage the digital economy of India. Dr. Uma has used secondary data from RBI, Government of India Websites and publications to conduct this study. The Paper mentioned that the introduction of UPI payments during demonetization was one of the first steps taken by the Government of India toward a digital economy. The paper suggests that by incorporating the digital economy we can reduce tax avoidance instance, curb black money, reduce spending on currency printing, improves transparency, etc., Citing the challenges the author mention about strong cash-driven transaction among MSMEs, deeply penetrated cash transaction in rural areas, weak internet infrastructure in tier2 and tier 3 cities. The paper also discusses the measures taken by RBI and govt of India to boost the digital economy.

3. RESEARCH METHODOLOGY AND FRAMEWORK

3.1 Objectives of the Study

- To identify the digital transformation level (or stage) of Micro-enterprises.
- To identify the factors and their influence on the digital transformation of micro-enterprises.
- To study the impact of digital transformation on the performance (Sales, Profit) of Micro-enterprises.
- To study the problems faced by micro-enterprises to integrate digital technology.

3.2 Research Gap

- **Geographical gap**: None of the papers referred have focused on Karnataka Region.
- **Type of data collection**: Most of the studies conducted by authors are based on Secondary Data and deduction based on a larger study.
- **Sectorial classification**: Most of the studies took MSME as a whole to study digital transformation. So, the objective is to analyze only micro-enterprises.

3.3 Scope of the study

- The study will help IT service/product providers (companies) to understand the needs and problems faced by micro-enterprises. Thus, helps to develop new products that cater to those needs.
- The study helps us to understand the factors that are affecting the digital transformation process.

3.4 Limitations of the study

- The study is focused only on Micro-enterprises and does not consider the other two categories of industries.
- The study was conducted on enterprises with special reference to the Shivamogga City of Karnataka State.

3.5 Theoretical framework of the study

The study was designed carefully by referring to related journal papers and articles from various sources.

The first objective of the study is to determine the digital transformation position of the enterprise, 3 level scale is used to assess the level of digital transformation this scale is extracted from a journal article (Verhoef, P. C). The below table shows the 3 levels and criteria for segregation.

Table 2: Various levels of digital transformation.

Level 1 **Digitization**	➢ Converting Physical data into digital data. ➢ Installing Computers, POS machines, and Invoice generators. ➢ POS, Online Transactions. ➢ Recording business transactions digitally. ➢ Using email-id to communicate within and outside the organization. ➢ Training employees to learn new technology.
Level 2 **Digitalization**	➢ e-commerce, websites, and Mobile application ➢ Digital Marketing ➢ offering services through a digital medium ➢ Use of Robots and CNC Machines in manufacturing
Level 3 **Digital transformation**	➢ Using Digital Tools to make decisions, ➢ Business analysis using computers, ➢ Process Automation. Customer-centric technology. (Chat Bots, Call Assist, Forums, etc.)

The next object was to determine how these digital tools and technology benefitted the micro-enterprise. For this, the effect on three Key Performance Indicators(Drive Digital Adoption, 2022)is considered namely Profits, Sales, and Customer engagement.

The next objective was to identify the factors influencing the digital transformation process. Several factors that are appropriate for this study are handpicked from a few journals and are listed below.

Table 3: List of Factors that impact the digital transformation process.

List of Factors	Source of Extraction
• Faster Internet penetration	(Habeeb, M., Sharma, R., & Ikram, S.,2018)
• New Technology • Skilled Employees	(Chandana, K., & Ramu, G. 2018).
• E-commerce	(Verhoef, P. C., 2021).
• Government promotions • Shift in Consumer Preference	(Tarutė, A., 2018)

• Competition Pressure • Support from the Government • Low Operating Cost • Data Generation • Maturity of the industry	(Gašperlin, B., Pucihar, A., & Kljajić Borštnar, M. 2021).

The final objective was to identify and understand the problems faced by enterprises while integrating new technology. Below mentioned are the few common problems that are faced by the MSME as quoted by the authors of Journals.

Table 4: List of problems faced by micro-enterprises.

Problems	Source
• Dynamic nature of Technology (Innovation in technology every day makes it difficult to choose and cope) • Lack of Awareness • Insufficient Capital • Cost of Skilled Employees	(DATAQUEST. Retrieved 28 June 2022)
• Lack of skilled labor • Funds • Low IT infrastructure	Money control. (2022).

4. FINDINGS AND RECOMMENDATIONS

4.1 Findings And Discussion

The Study Conducted was found to be informative and the data analysis and hypothesis testing generated a lot of insights. The findings that are extracted from the study are listed below,

a) As a result of a majority of the district population being dependent on agriculture most of the Micro-enterprises in Shivamogga City belong to the wholesale and retail trading business category related to food grains, agriproducts, areca, etc.

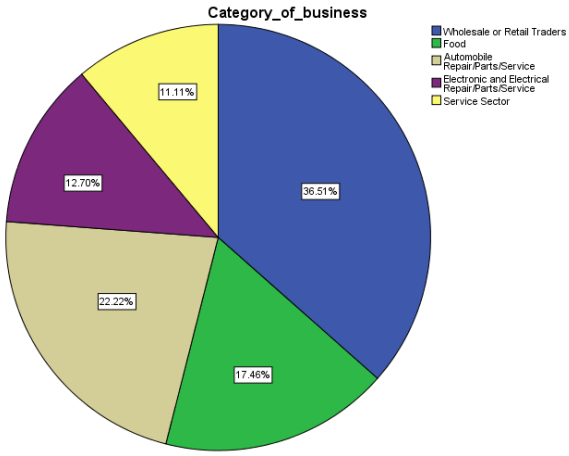

Chart 1: Graphical Representation of Category of Business.

b) The Study reveals that out of 63 enterprises 40 are at Digitization Level, 18 are at the Digitalization level and 5 are at the Digital

transformation level. The Enterprises in Level 1 are satisfied with the basic requirements for their business activities and only a few enterprises which are started in recent years are in Level 3 as they have started with the digital business model. Level 2 enterprises are those who are willing to upgrade but due to a few problems, they are lagging.

Table 5: Frequency Table Representing leve

l of digital transformation.

Actual_Current_Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	LEVEL 1	40	63.5	63.5	63.5
	LEVEL 2	18	28.6	28.6	92.1
	LEVEL 3	5	7.9	7.9	100.0
	Total	63	100.0	100.0	

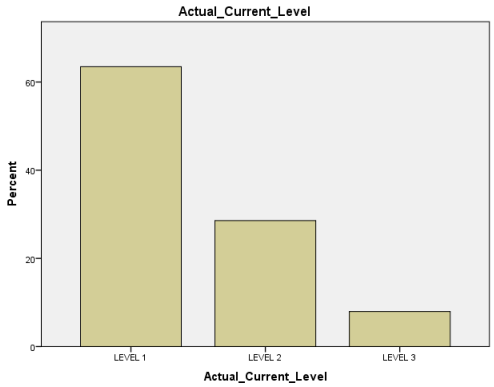

Chart 2: Bar graph indicating the level of digital transformation.

c) The Average age of the sample takes is around 10 Years (9.81 years) and this implies that the majority of the respondents are still young. As a result, these are most probably in the introduction or growth stage of the industry cycle. This is a better sign that enterprises have plenty of time and opportunity to adopt technology in earlier stages.

d) Despite the growth in Indian Telecommunication Sector still 38.1% of the micro-enterprises don't have Internet Access. The reason is either the enterprises are situated far from the city limits or internet service providers have not extended their network in those areas.

e) The Enterprises believe that they don't have to install a computer system for day-to-day operation as a result 42.9% of the enterprises don't have a computer system, despite the computer system being one of the entry-level equipment for a digital business model.

f) Almost every enterprise has adopted a digital payment system by displaying QR codes for UPI payments, POS machines for card payments, and Account transfers using internet banking. As a result of many reforms in the field of digital payment, it is evident that every store is now capable of accepting digital payments.

g) Only 34.93% of the enterprises are recording their transaction either in real-time or Post transactions using digital systems. The majority of enterprises don't know how to incorporate and handle this software and adapted it to the standard process.

h) The study shows that Factors like Faster Internet Penetration (92.1%), rapidly growing e-commerce business (63.5%), the shift in consumer preference (79.4%), and competition pressure (81%) have a High Impact on enterprises to move towards the digital business model. In recent years the cost of internet has reduced drastically with improved speed, as a result, tier 2 and tier 3 cities have got access to good quality internet. This has resulted in e-commerce growth, faster and safe money transfer system, etc., and consumers started to look for a few convenient features during the trade. This has created a competitive environment among enterprises to tackle the customer with those flexible, easy-to-use, and convenient features.

i) Factor like Maturity of Industry (44.4%) has been found to have a weak impact. Few industries demand that enterprises have digital technology, but the majority of enterprises think that it has a weaker effect. Though the Enterprises are aware of the fact that they can reduce the operating cost significantly they are not ready to spend high investment on those technologies as a result 47.6% of the

enterprises responded that low operating cost has Low impact.

j) Government support (71.4%), Innovation in the field of Technology (44.4%), and Untapped vital customer data (58.7%) were found to have No impact on the enterprise transformation. The Lower-level enterprises need to be encouraged by the government to procure technology and the Government has to arrange skill training sessions to train entrepreneurs. The lower-level enterprises have not been able to tap customer data because of the high volume of trade.

k) Majority of the enterprises faced insufficient capital to procure new technology (65.1%) and Cost and Availability of skilled Labour (55.6%) as major problems while integrating technology with business. Some enterprise has experienced a Lack of awareness about new technology (41.3%) and Poor IT infrastructure (44.44%) and a few enterprises experienced problems like a lack of market research (17.5%) and day-to-day changing technology (9.52%). The above-listed problems are the most common problems faced by enterprises many of the enterprises have not been able to get proper finance to fund while many feel that the cost and availability of Labour are too high in the city.

l) The study found that Sales Growth (81%) and Customer Engagement (98.4%) have Improved by adopting technology. Whereas Many enterprises responded that their profits (55.55%) remained unchanged post-integration. Since the majority of the enterprises are young, they may have not reached the break-even point to show profit growth and the enterprises which are continuously investing money in upgrading the technology may have experienced weaker growth in profits.

m) H_0: There is no significant association between the level of digitalization and the age of the enterprise.
H_1: There is a significant association between the level of digitalization and the age of the enterprise.
Analysis result:
Test Used: **PEARSON CORRELATION** (one-tailed Test)

Table 6: Table showing results for Pearson Correlation Test.

Correlations

		Age_of_the_Enterprise	Actual_Current_Level
Age_of_the_Enterprise	Pearson Correlation	1	-.127
	Sig. (1-tailed)		.161
	N	63	63
Actual_Current_Level	Pearson Correlation	-.127	1
	Sig. (1-tailed)	.161	
	N	63	63

Hypothesis testing concludes that “There is no significant association between the level of digitalization and the age of the enterprise” implying that there is a negative (Correlation Coefficient r = -0.127) relationship between age and level of digital transformation. Suggesting Older Enterprise is Still at the Bottom level of the transformation and that new enterprises have started to adopt digital tools as early as possible.

n) Finally, the result shows that the rating given by 17 (27%) enterprises has not matched with actual levels according to predefined criteria. Suggest that these 17 enterprises either overrated their enterprise or underrated their enterprise and this shows that these enterprises

have the wrong notion about the current market scenario.

4.2 Recommendations

Based on the above-mentioned finding. The following list of recommendations is proposed,

a) As the study result shows that micro-enterprises (65.1%) are facing problems related to Inadequate funds (insufficient capital) to acquire digital technology (equipment, software, etc.,). So, Banks can increase lending credits to micro-enterprises to acquire innovative tools and technology.
b) Banks can develop a marketing plan to attract these enterprises by carefully analyzing the problems faced by enterprises and factors influencing the digital drive.
c) Banks can utilize this study to craft a new credit scheme to promote digitalization among Micro-enterprise.
d) Study Reveals that 27% of enterprises don't know their true level of digitalization. So, it is necessary to have a standard scale for self-assessment. The primary purpose of the study was to identify the stage of digitalization in the premises of Shivamogga city to help Micro-enterprises to know their status. So, Government can recommend this report to its micro-enterprises when they seek credits to buy new technology to get a better understanding of the city standards.
e) Government of Karnataka, IT companies, and Service Providers so that those recipients can get a basic idea about the current level of digitalization across Shivamogga City and Carefully design schemes, software, and services to meet the current need.
f) Shivamogga is one of the 100 Smart Cities, and these micro-enterprises have huge scope and opportunity to transform themselves into a sustainable business.
g) For Micro enterprises, it is recommended to have a team or individual for managing the IT-related aspects of Business.

5. CONCLUSION

The study concludes that there is still a scope for micro-enterprises to improve their business model. The study comprehends the efforts made by micro-enterprises to adopt the technology.

This research confirms the earlier findings regarding the level of digitalization and concludes majority are still in stage 1 and many of them seem to be aware of their current level. The study identified the factors affecting digitalization. The enterprises that accept the need for digitalization have expressed their perspective on digitalization. The Study presents the problems faced by enterprises and the impact of digitalization on key performance indicators like Profits, Sales, and Customer satisfaction.

Finally, the reports suggest a few measures and recommendations that can be taken by KSFC, Micro-enterprises to promote the use of digital technology.

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