



## ORIGINAL PAPER

# Assessing the impact of digitalization on Micro, Small and Medium Enterprises in India

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**Abstract:** India is the fastest developing economy in the world. The Indian economy is the seventh biggest economy in the world in terms of GDP and the third biggest by purchasing power parity after the US and China. The Indian economy has seen a lot of changes from acting self-dependent to opening its entryway for worldwide exchanging by introducing Liberalization, Privatization, and Globalization in 1991 under the Finance Minister Mr. Manmohan Singh. And from that point in time, India is growing at a great pace. Economic Survey 2015-16, the Indian economy will keep on growing more than 7% in 2016-17 and gradually increase to 8% by FY 2018-19, driven by the gradual usage of changes in the economy, higher disposable income, and change in financial action. The current strides of the Indian government have indicated positive outcomes in the growth of the GDP. In India, most of the transactions are in cash nearly 90% of the stores in the market are accepting money. Micro and small-scale enterprises not only contribute significantly to improved living standards, but they also bring about substantial local capital formation and achieve high levels of productivity and capability. In this situation, this research study takes the initiation to analyze the impact of digitalization on MSMEs as they are one of the major players in the economic development of industrial areas like Karnataka.

**Keywords:** *MSME, Banking system, Financial Institutions, Micro Finance, Digitization, Bank Loans.*

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## **1. Introduction**

These enterprises play a vital role in the economic growth of the country. Besides this, because of digitalization MSMEs sector facing a lot of problems relating to borrowing money from financial institutions and banks, there are still many small and medium scale enterprises that are unaware of the impact of digital transformation and fail to build customer loyalty. While the implementation of GST did not appear to have a substantial influence on overall credit to Micro, Small and Medium Enterprises, the demonetization of currency caused the already sluggish credit growth of the Micro, Small and Medium Enterprises sector to slow even further.

The Prime Minister of India, launched the so – called "Digital India" campaign on July 1, 2015, with the main goal of ensuring that citizens have access to government services online through improved online infrastructure, increased internet connectivity, or by giving the nation digital empowerment in the technology sector. Plans for connecting rural areas to high-speed internet networks are part of the effort. The goal of the Digital India programme is inclusive growth in the production of electronic goods, services, and employment possibilities. The creation of a safe and reliable digital infrastructure, the provision of public services online, and widespread digital literacy make up the three main elements of the "Digital India" initiative.

Digital infrastructure basically refers to platforms where country residents will be able to create a digital identity that will enable them to quickly access government services. Nearly all services, including managing a bank account, distance learning, registering for numerous government websites, digitally preserving papers, etc., are made available online as part of this project. All of the country's rural areas will soon have access to high-speed internet as part of the project. They will be able to benefit from the government's numerous projects thanks to this.

The Indian economy's skeleton is made up primarily of Micro Small and Medium Enterprise companies. In accordance with the Micro, Small, and Medium Enterprises Development Act of 2006, the Indian government has established MSME. Production, manufacture, processing, or preservation of goods and commodities was the main focus of these businesses. MSMEs represents one of the most significant segment of the Indian economy and have made significant contributions to the socio-economic advancement and development of the nation.

Due to its exports and contribution to India's Gross Domestic Product (GDP), the sector has grown significantly in prominence. Along with creating job possibilities, it also contributes to the advancement of the nation's rural and underdeveloped regions. The Micro, Small, and Medium Enterprises development are divided into two classes, namely Manufacturing Enterprises and Service Enterprises, in accordance with their regulations. The businesses are further divided into groups according to equipment investments and annual turnover.

The research objectives of this empirical study are the following:

- 1) To review the current digitalization practice in MSMEs.
- 2) To assess the challenges of MSMEs in digitalization system.
- 3) To establish possible solutions in minimizing problems faced in implementing digitalization.

## **2. Literature review**

Because of external environmental changes along with changing social, economic, cultural, and political changes occurred in the country. Most research

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scholars, experts, and Marketing, finance, Human resources, external factors, etc. It is known that SME's facing more challenges are like surveillance problems because of changing external environment structure.

Neely et al. (1995) argued that performance measurement can be defined as a metric, process, and set of metrics based on their efficiency and effectiveness of actions. For any organization's performance, indicators are crucial for knowing the status of the organization and for developing a strategy towards increasing their performance in the coming future. This study identifies four metrics for calculating the performance of an organization as quality, time, flexibility, and cost. facilities, technology up-gradation, inadequate infrastructure, poor transportation facilities.

Stockdale and Standing (2004) studied the advantages and obstacles in the adoption of electronic marketplace by SMEs and stated that access to a broader range of markets is a critical factor in the adoption of Internet technology. They also concluded that the changing requirements of customers, as well as suppliers, also shape the adoption of IT technology by small firms. The authors consider E-marketplace as a considerable threat on the development of the Micro, Small, and Medium Enterprises because generates high competition and maintains non-participants in an area of vulnerability and exposure for the other firms which are more e-enabled. Scupola (2004) investigated the implementation of E-Commerce in the case of Small and Medium Size Enterprises in Australia based on the following factors: environmental, organizational and technological.

Pearce-Moses (2005) provided an interesting definition of digitization which is “the process of transforming analog material into binary electronic (digital) form, especially for storage and use in a computer”. Moreover, digitalization converts materials from analog formats that can be read by people to a digital format that can be read-only by machines. The devices like scanners, cameras, and several other devices can be used to digitize knowledge contents. These technologies allow the digitalization of almost all types of materials, including paper documents, rare documents, photographs, sound recordings, and motion pictures.

Khan et al. (2015) examined the effects of digitization on economy but also the importance of ICTs such as Information and Communication Technologies. On the other hand, Hawaldar et al. (2020) analyzed the impact of non-performing assets in the case of agricultural loans considering that agriculture is one of the main economic sectors in India. Pourmansouri et al. (2022) argued that in order to determine corporate governance in firms or companies a key role is played by increasing levels regarding performance and value for shareholders.

### **3. Research methodology**

The research framework represents the methodical process of gathering and analysing facts in order to improve our comprehension of the issue that interests or concerns us. This research study is quantitative and exploratory in nature, with data gathered from both primary and secondary sources.

#### **Source of data:**

##### **a) Primary data:**

Primary data is collected through a semi structured questionnaire from executives, supervisors or the proprietor of the MSME companies. The questionnaire was distributed randomly to 100 companies in Udipi and Mangaluru District. 50% of the questionnaires

was distributed in Mangaluru Industrial area where majority of the MSMEs are located and in remaining 50% of the questionnaire was distributed in Udupi District.

**b) Secondary Data:**

Secondary data are collected from the various published and unpublished sources like annual report of MSMEs, journals, articles, newspaper reports etc.

**4. Empirical results**

**USE OF CHI-SQUARE TEST:**

The chi-square ( $\chi^2$ ) is a measure of the relative discrepancy between the observed and the expected frequencies. It is used to test the independence of two attributes.

Formula:

$$\chi^2 = \sum(O_i - E_{id})^2/E_{id}$$

Whereon is the observed value and  $E_{id}$  being the expected value.

**Table No: 1.1**

**$H_0$  : Gender and training program are independent**

**$H_1$  : Gender and training program are dependent**

**Table 1 : Gender and Training program cross tabulation**

			Undergone any training to start a Business		Total
			Yes	No	
Gender	Male	Count	4	91	95
		% within Gender	4.2%	95.8%	100.0%
	Female	% within Undergone any training to start a Business	66.7%	96.8%	95.0%
		Count	2	3	5
Total		% within Gender	40.0%	60.0%	100.0%
		% within Undergone any training to start a Business	33.3%	3.2%	5.0%
		Count	6	94	100
		% within Gender	6.0%	94.0%	100.0%
		% within Undergone any training to start a Business	100.0%	100.0%	100.0%

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**Table 2: Chi-Square Tests**

	Value	Df	Asp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
<b>Pearson Chi-Square</b>	<b>10.788<sup>a</sup></b>	<b>1</b>	<b>.001</b>		
Continuity Correction	5.375	1	.020		
Likelihood Ratio	5.494	1	.019		
Fisher's Exact Test				.028	.028
Linear-by-Linear Association	10.680	1	.001		
N of Valid Cases	100				

Source: Data collected from Primary Data through Questionnaire Method with the help of SPSS tool.

### Interpretation:

The chi square statistics appears in the value column immediately to the right of “**Pearson Chi-square**“. In this example, the value of the chi square statistic is **10.788**

The p-value (0.001) appears in the same row in the “**Asymptotic Significance (2 sided)**” column. The result is significant if this value is equal to or less than the designated alpha level (i.e. 0.05).

In this case, the p- value is smaller than the standard alpha value, so we would reject the null hypothesis

Chi-Square value lies in rejection region therefore reject the null hypothesis

There for, **Gender and Training programs are dependent**

**H<sub>0</sub> : Age group and the size of the business is independent**

**H<sub>1</sub> : Age group and the size of the business is dependent**

**Table 3 : Age Group \* Size of the Business Cross tabulation**

		Size of the Business			Total	
		Micro : Investment < Rs. 1 crore and Turnover < Rs. 5 crores	Small : Investment < Rs. 10 crores and Turnover < Rs. 50 crores	Medium: Investment < Rs. 50 crores and Turnover < Rs. 250 crores		
Age Group	21-30	Count	30	0	0	30
		% within Age Group	100.0%	.0%	.0%	100.0%
		% within Size of the Business	30.6%	.0%	.0%	30.0%
31-40		Count	43	1	0	44
		% within Age Group	97.7%	2.3%	.0%	100.0%
		% within Size of the Business	43.9%	100.0%	.0%	44.0%

41-50	Count	14	0	0	14
	% within Age Group	100.0%	.0%	.0%	100.0%
	% within Size of the Business	14.3%	.0%	.0%	14.0%
More than 50	Count	11	0	1	12
	% within Age Group	91.7%	.0%	8.3%	100.0%
	% within Size of the Business	11.2%	.0%	100.0%	12.0%
Total	Count	98	1	1	100
	% within Age Group	98.0%	1.0%	1.0%	100.0%
	% within Size of the Business	100.0%	100.0%	100.0%	100.0%

Table 4 : Chi-Square Tests

	Value	df	Asp. Sig. (2-sided)
<b>Pearson Chi-Square</b>	<b>8.673<sup>a</sup></b>	<b>6</b>	<b>.193</b>
Likelihood Ratio	5.951	6	.429
Linear-by-Linear Association	3.120	1	.077
N of Valid Cases	100		

Source: Data collected from Primary Data through Questionnaire Method with help the of SPSS tool.

### Interpretation:

The chi square statistics appears in the value column immediately to the right of “**Pearson chi-square** “. In this example, the value of the chi square statistic is **8.673**.

The p-value (0.193) appears in the same row in the “**Asymptotic Significance (2 sided)**” column. The result is significant if this value is equal to or less than the designated alpha level (i.e. 0.05).

In this case, the p- value is greater than the standard alpha value, so we would accept the null hypothesis

Chi-Square value lies in acceptance region, therefore accept the null hypothesis

There for, **Gender and size of the business are independent**. A statistical technique called simple linear regression enables us to examine and analyse relationships between two continuous variables.

### Formula:

$$Y = \beta_0 + \beta_1 X + \varepsilon$$

**Predictor: Age group**

**Dependent variable: How much impact on profit after using digitalization**

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**Table 5 : Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.178 <sup>a</sup>	.032	.022	.22028

**Table 6 : ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.155	1	.155	3.189	.077 <sup>a</sup>
Residual	4.755	98	.049		
Total	4.910	99			

**Table 7 : Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.944	.053		17.902	.000
	Age Group	.041	.023	.178	1.786	.077

Source: Data collected from Primary Data through Questionnaire Method with the help of SPSS tool.

### **Interpretation:**

In this model Sig (p-value) is more than alpha (0.05), we say that this model is not significant.  
(**F= 3.189, p = 0.077**)

**Predictor: Size of the business**

**Dependent variable: How much impact on profit after using digitalization**

**Table 8 : Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
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**Table 9 : ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2.466	1	2.466	2.032	.157a
Residual	118.974	98	1.214		
<b>Total</b>	121.44	99			

**Table 10 : Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.110	.524		4.028	.000
Size of the Business	.709	.497	.143	1.425	.157

Source: Data collected from Primary Data through Questionnaire Method with the help of SPSS tool.

1	.143 <sup>a</sup>	.020	.010	1.10182
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**USE OF T- TEST:**

To evaluate whether there is a significant difference between the means of two groups that may be related in some ways, a t test is a sort of inferential statistic that is utilised. The t-test is one of many tests used in statistical hypothesis testing.

**Formula:**

$$t = \frac{m - \mu}{s/\sqrt{n}}$$

Where,

t = Student's t-test

m = mean

μ = theoretical value

s = standard deviation

n= variable set size

Table No: 1.5

H<sub>0</sub> : There is no significant differences between gender and age group

H<sub>1</sub> : There is a significant difference between gender and age group



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**Table 11 : Group Statistics**

Gender		N	Mean	Std. Deviation	Std. Error Mean
Age	Male	95	2.1368	.95216	.09769
Group	Female	5	1.0000	.00000	.00000

**Table 12: Independent Samples Test**

		Levine's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Age Group	Equal variances assumed	6.938	.010	2.657	98	.009	1.13684	.42787	.28774	1.98594
	Equal variances not assumed			11.637	94.000	.000	1.13684	.09769	.94288	1.33081

Source: Data collected from Primary Data through Questionnaire Method with the help of SPSS tool.

### Interpretation:

In this model significant value is 0.010 it is less than 0.05 so this model is significant. Here significant value is in acceptance region there for accept the null hypothesis.

**So, there is a no significant difference between gender and age group**

**H<sub>0</sub> : There is no significant difference between gender and Ease of accepting payment from customers**

**H<sub>1</sub> : There is a significant difference between gender and Ease of accepting payment from customers**

**Table 13 : Group Statistics**

Gender		N	Mean	Std. Deviation	Std. Error Mean
Ease in accepting payments from customers	Male	95	7.4947	1.17486	.12054
	Female	5	7.2000	2.28035	1.01980

**Table 14 : Independent Samples Test**

		Levine's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Ease in accepting payments from customer	Equal variances assumed	7.262	.008	.518	98	.605	.29474	.56869	-.83381	1.42329
	Equal variances not assumed			.287	4.113	.788	.29474	1.02690	-2.52590	3.11538

Source: Data collected from Primary Data through Questionnaire Method with the help of SPSS tool.

**Interpretation:**

In this model significant value is 0.008 it is less than 0.05 so this model is significant. Here significant value is in acceptance region there for accept the null hypothesis and reject the alternative hypothesis.

**So, there is a no significant difference between gender and Ease of accepting payment from customers.**

**4. Discussions**

The main focus of this study was to assess the current practices of digitalization of MSMEs, understand the problems faced by MSMEs in Post digitalization and support MSMEs in minimizing problems faced in implementing digitalization. The study is structured of five chapters namely, Introduction, Literature review, Research methodology, Data analysis and interpretation and last one is Summary and Conclusion.

Majority of respondents feel great to have digitalization while accepting payments from customers, payments to suppliers, saves time from the long queue either at banks or ATMs for the purpose of withdrawing or depositing cash. Majority of respondents feel their profit increased by 0 to 10% after using digitalization techniques in the business. With the use of chi- square test for example No 1, we found p-value as 0.001 is less than standard alpha level (0.05) there for reject the null hypothesis, So Gender and Training programs are dependent. With the use of chi- square test for example No 2, we found p-value as 0.193 is more than standard alpha level (0.05) there for accept the null hypothesis, So Gender and size of the business are independent. With the use of simple linear regression for both the example we got p-value as more than alpha value so we conclude that these models are not significant. With the use of t-test we got significant value as less than alpha value so we accept the null hypothesis for both the example.

A clear road map of spectrum availability with a rational pricing structure needs to be developed Taxes and levies on telecom services should be rationalized to ensure overall growth and financial viability of the sector Clear rules relating to security standards should be set to help reduce uncertainty for equipment providers, and service providers. Address security and governance issue of internet If hospitals are part of the network providing medical advice through telemedicine, quality healthcare can reach people living in remote areas for which Digital India can come in handy. Hence, Government should plan to use Digital India initiative effectively improving Medicare. Another area of focus for Google as a part of supporting the Digital India initiative is to build the non-English internet user base. Hence, along with English, Indian languages to build non-English internet so that internet becomes very helpful. Communicating frequently via traditional and digital methods.

Men made up the majority of the responders. The bulk of the people who took part in the survey were between the ages of 31 and 40. The bulk of those who responded were high school graduated. The vast majority of people who took part in the survey were married. The food Centre industry employs the bulk of the respondents. The majority of those polled had had no government-sponsored training. The great majority of people surveyed are self-employed. Micro businesses employ the vast majority of responders. The bulk of those who responded had between one and five years of experience. The majority of respondents believe that having digitization while receiving payments from clients, payments to suppliers, and saving time from long lines at banks

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or ATMs for withdrawing or depositing money is a fantastic thing. After implementing digitalization strategies in their business, the majority of respondents believe their profits have increased by 0 to 10%.

Using the chi-square test, we discovered that the p-value of 0.001 is less than the standard alpha level (0.05) required rejecting the null hypothesis, indicating that gender and training programs are interdependent. For example, No. 2, the chi-square test revealed that the p-value of 0.193 is more than the typical alpha level (0.05), indicating that the null hypothesis is correct. We observed that the p-value was bigger than the alpha value for both examples using simple linear regression, indicating that these models are not significant. We observed that the significant value was less than the alpha value using the t-test, therefore in both situations, we accept the null hypothesis.

It is necessary to define a clear roadmap for spectrum availability, as well as a fair pricing system. Taxes and levies on telecom services should be streamlined to enable the sector's overall growth and financial viability. Clear security standards guidelines should be set to assist avoid ambiguity for equipment and service suppliers. The internet has become incredibly beneficial as a result of this. Quality healthcare can reach people living in rural locations if hospitals are part of a network giving medical advice via telemedicine, which is where Digital India can help. As a result, the government should make plans to use the Digital India project to improve Medicare in a meaningful way. Collaboration between state and federal authorities is essential; else, service prices and maintenance would grow. As part of its support for the Digital India initiative, Google is focusing on expanding its non-English internet user base. As a result, in addition to English, Indian languages contributed to the development of the non-English internet, making it immensely helpful. Allowing people to work in new ways. Giving everyday objects a digital makeover. Using both traditional and digital communication methods on a regular basis.

### **5. Conclusions**

A digital environment for the working of MSME sector has been created by the government through various policy initiatives. Overview of the schemes and policies tells that it is only around four to five years back when the process of gearing up of digitalization of MSMEs have started, although the pace was slow but now it is gaining momentum. Digitalization is a significant factor to take an enterprise a level up, MSMEs are upgrading their ways of doing business but remains weak due to use of unsophisticated technology. The entrepreneurs mostly do not have all the required skills, knowledge and resources to adopt these technologies thus it becomes the responsibility of the government to provide a helping hand for making advancement.

The government has developed a digital environment for the MSME sector's functioning through numerous policy initiatives. The assessment of plans and policies reveals that the process of preparing MSMEs for digitalization began only four to five years ago, and while the pace was slow at first, it is already picking up. MSMEs are updating their business operations, yet they are still vulnerable owing to obsolete technology. Because most entrepreneurs lack the essential skills, expertise, and money to implement new technologies, it is the government's job to assist them.

Adoption of digital technology solves many of the problems that businesses face and aids in their growth and expansion, making it a boon to some entrepreneurs. However, due to ignorance and a lack of e-literacy, some entrepreneurs are still unaware of the benefits and importance of digital technology. As a result, e-literacy initiatives

must be implemented to create awareness about the potential and relevance of digital technology for corporate success, and they must reach the grassroots level. Maintaining the competitiveness of domestic firms in relation to global firms is a prerequisite of the existing system and one of the government's primary concerns, which may be accomplished efficiently through the digitization of the MSME sector. Emerging digital technologies are making it easier for businesses to manage their operations and provide better service to their customers. Adoption of these technologies is critical for developing timely financial insights and remaining competitive. Businesses that are still operating today must embrace digital transformation in order to restructure and, ultimately, recover when non-digital endeavours become obsolete in the new normal.

#### **Authors' Contributions:**

The authors contributed equally to this work.

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**APPENDIX**  
**QUESTIONNAIRE**

PART – A

1. Name of the Business or Businessman : -----
2. Gender:                    a) Male                    b) Female
3. Educational Qualification:  
a) High school            b) Graduation            c) Post - Graduation            d) Professional or PhD
4. To What age group do you belong to?  
a) 21-30                    b) 31-40                    c) 41-50                    d) More than 50
5. Marital Status:  
a) Single                    b) Married
6. Nature of the business (mark only one)  
a) Food / cosmetics  
b) Jewelry  
c) Food Centers (including hotels)  
d) Books and stationery  
e) Medications  
f) Clothes / Shoes  
g) Furniture  
h) Technology  
i) Provide any kind of services  
j) Other:
7. Are you undergone any training to start your business:  
a) Yes                    b) No  
If yes, name the training you got .....
8. Legal status:  
a) Sole proprietorship  
b) Partnership  
c) Company
9. Size of the Business (Mark any one)  
a) Micro  
b) Small  
c) Medium
10. Years of Operation:  
a) Less than 1 year  
b) 1-5 years  
c) 6-10 years  
d) More than 10 years

**PART- B**

How could you rate the following favorable factors of digitalization that are contributing the growth of your MSMEs business (where 10 means most beneficial and 1 means least beneficial)

1. Easily accept payments from customers:

	1	2	3	4	5	6	7	8	9	10	
Least Beneficial											Most Beneficial

2. Ease in making payments to Suppliers :

	1	2	3	4	5	6	7	8	9	10	
Least Beneficial											Most Beneficial

3. Ease of applying and approval of loans or overdraft from the banks / Financial institutions:

	1	2	3	4	5	6	7	8	9	10	
Least Beneficial											Most Beneficial

4. Ease in managing the expenditure of business:

	1	2	3	4	5	6	7	8	9	10	
Least Beneficial											Most Beneficial

5. Save time from long queues at banks or ATMs for withdrawals or deposits:

	1	2	3	4	5	6	7	8	9	10	
Least Beneficial											Most Beneficial

6. To avoid carrying heavy cash while traveling for business purposes:

	1	2	3	4	5	6	7	8	9	10	
Least Beneficial											Most Beneficial

7. No misuse of funds by employees or reduction of theft:

	1	2	3	4	5	6	7	8	9	10	
Least Beneficial											Most Beneficial

8. Benefit of Cash Back :

	1	2	3	4	5	6	7	8	9	10	
Least Beneficial											Most Beneficial

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### 9. How The Impact of Profit After Using Digital Processing:

- No effect
- Profit increases by 0 to 10%
- Profit increased by 10% to 20%
- Profit increased by 20% to 30%
- Profit increased by 30% to 40%
- Profit increased by 40% to 50%
- Profit increased by 50% to 60%
- Profit increased by 60% to 70%
- Profit increased by 70% to 80%
- Profit increased by 80% to 90%
- Profit increases above 90%

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#### Article Info

*Received:* July 25 2022

*Accepted:* August 05 2022

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#### **How to cite this article:**

Shetty, S. K., Spulbar, C., Birau, R., Ninulescu, P. V. (2022). *Investigating the impact of Goods and Service Tax (GST) on the banking sector with reference to selected banks in India.* (2022). *Revista de Științe Politice. Revue des Sciences Politiques*, no. 75, pp. 101 – 115.