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# THE ROLE OF SMALL AND MEDIUM ENTERPRISES (MSMEs) IN PROMOTING ENTREPRENEURSHIP IN THE DIGITAL ERA

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## ABSTRACT

***Micro, Small, and Medium Enterprises (MSMEs) have long been recognized as critical engines of economic growth, job creation, and innovation. This article examines multifaceted aspects of the MSMEs' function in facilitating entrepreneurship in era of extensive digitization. We believe that MSMEs are not only playing an active part in economy and are becoming important catalysts and incubators for new generation of digital entrepreneurs. They do this through being agile adopters of emerging technologies, developing niche markets, innovative cultures, providing laboratory for dynamic digital training. This paper presents on literature to discuss ways in which digitally-enabled MSMEs reduce entry barriers, promote platform-based business models, produce 'intrapreneurship'. It also discusses significant barriers that hinder this potential, such as digital literacy gap, lack of resources, cybersecurity threats. The article states that symbiotic relationship between MSMEs and digital technology is essential for creating a resilient and dynamic entrepreneurial ecosystem and recommends policy implications for better digital literacy and infrastructure to unlock its potential.***

**KEYWORDS:** ***MSMEs, Entrepreneurship, Digital Era, Digital Transformation, Digital Literacy, Small Business, Innovation, Economic Development.***

## 1.INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) represent the backbone of the global economy. World Bank estimates that MSMEs constitute about 90% of all enterprises and over 50% of employment in world (World Bank, 2022). Contribution to job creation, Gross Domestic Product (GDP), poverty alleviation remain their undeniable achievement, especially in developing economies (Srinivas, 2017). These enterprises have traditionally been lauded for their agility, flexibility, ability to serve local communities. Yet, past 20 years have seen rise of "digital age," a period of significant technological transformation that has been driven by rise of internet, cloud services, mobile computing, artificial intelligence (AI), Big Data.

The digitalization has transformed business landscape in revolutionary way, disrupting conventional markets and presenting unprecedented opportunities and challenges to business (Cetindamar et al., 2021). It is undeniable that digital era has greatly reduced barriers to entrepreneurs. With only small investment of capital, business ideas can be developed, tested, scaled on global level.

This integration of MSME growth and digitalization transformation provides a pivotal area of inquiry. Although numerous research studies have been conducted on adaptation of MSMEs to digitalization or creation of new ventures (start-ups), few research studies have examined role of MSMEs in entrepreneurship by actively facilitating and incubating entrepreneurship within new paradigm. This article aims to fill that gap.

The central research question is: What is the role of MSMEs in promoting entrepreneurship in the digital era? We suggest that MSMEs play important role as enablers that serve as 'ecosystems' where entrepreneurial talents are nurtured, digital skills are developed, innovative business models are tested. They act as important connection between existing economic systems and disruptive influence of 'digital-native' generation.

## 2. THE DIGITAL ERA: A PARADIGM SHIFT FOR ENTREPRENEURSHIP

In digital era, digital technologies are deeply embedded in all aspects of business and society. That's not only "digitization" (converting from analog to digital), but a "digital transformation" (a fundamental rethinking of business models, operational processes, value creation) (Gong & Ribiere, 2021). Entrepreneurship is a big revolution in this aspect.

Initially, it has decreased significant portion of cost relating starting business. Cloud computing (Amazon Web Services, Google Cloud) avoids need for massive initial investment in IT infrastructure. The development tools that can be derived from open-source software are very powerful, while “Software as a Service” (SaaS) will provide advanced enterprise applications on a subscription basis (Chatterjee et al., 2021).

Secondly, it has made global markets accessible to everyone. E-commerce platforms (Shopify, Amazon, Etsy) and social media platforms (Instagram, TikTok) are capable of helping a sole proprietor sell and market products to world from their living room (Poornima et al., 2023). With this “long tail” technology it becomes possible to maintain viable businesses serving high niche that would not be viable in a purely physical, local market.

Third, it speeds up innovation process. A/B testing of real-time digital products, access to vast data, rapid prototyping with 3D printing allow entrepreneurs to pivot and iterate a lot faster than ever. A key trait of small, entrepreneurial ventures is their agility and learning, which is hallmark of

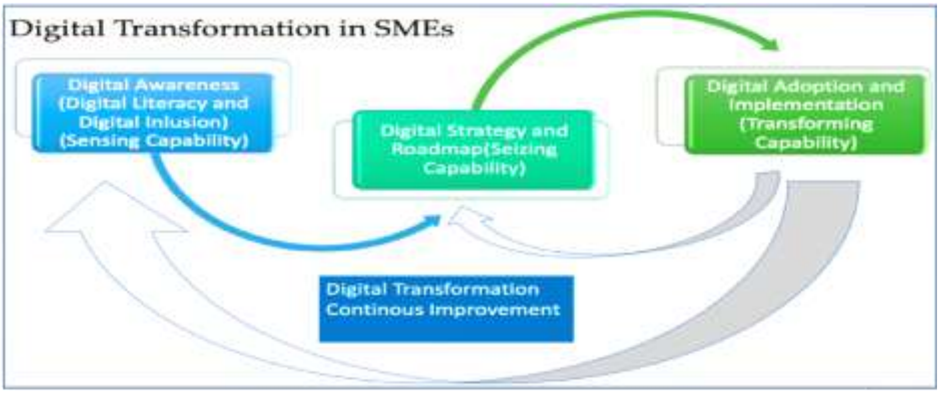
## 3. MSMES AS TRADITIONAL INCUBATORS OF ENTREPRENEURSHIP

MSMEs had always been a natural breeding ground for entrepreneurs, even before this era of digital age. It gives them relatively flat organizational structures, less rigid procedures, direct access all aspects of business providing distinct learning environment. Small firms offer multiple opportunities for employees to develop cross-functional skills in marketing, finance, operations, customer service.

This “hands-on” experience is a type of entrepreneurial apprenticeship. Any employee in MSME will know about full lifecycle of product or service, from conception to sale, compared to one in large, siloed corporation. Also, MSMEs encourage sense of ownership of responsibility. Within this setting, “intrapreneurship” can be inspired, where employees are tasked to develop new products, services or process improvements in an existing firm. In many cases, intrapreneurial projects are foundation for new and independent spin-off venture. MSMEs, thus, act as critical, low-risk testing for entrepreneurial ideas and talent (Syal, 2015).

## 4 THE DIGITAL-MSME NEXUS: FOSTERING MODERN ENTREPRENEURSHIP

Inherent agility of MSMEs integrated to digital transformation power is transformative, a powerful new engine for entrepreneurship is generated. In digital era, role of MSMEs is amplified, making them central player in new economy.




MSMEs as Agile Adopters and Testers

MSMEs can quickly adopt and examine new digital tools, whereas large corporations thrive in legacy systems and bureaucratic inertia. It's possible to implement new AI-powered customer service chatbot over a weekend for a small e-commerce company. A local consultancy can move their entire workflow to new project management tool that is cloud-based (such as Asana or Trello) in just a few days (ThinkRoom, 2023).

This agility exposes MSMEs to be front line for digital adoption. They turn into real-life laboratories for usefulness of new technologies. This experimentation has ripple effects, normalizing use of digital tools, generating demand for new digital services, showing potential use cases that other aspiring entrepreneurs can emulate and enhance.

### 4.1 Accelerating Digital Literacy and Skill Development

Digital literacy is one of most significant obstacles to digital transformation (ResearchGate, 2025a). MSMEs are, by definition, essential sites where digital skills are developed on-the-job. In large firm, you can have “IT department” handle your technology, but in an MSME, the owner, manager, or junior employee must learn how to manage social media marketing campaign, e-commerce backend, analyze website traffic employing Google Analytics.

This “learning by doing” process is invaluable. It develops and builds workforce that is not only digitally aware, but also proficient with digital tools to obtain business objectives. These digitally-skilled individuals are best equipped to identify new opportunities in digital business and are most confident in starting their own ventures.

### 4.2 Enabling Platform-Based and Niche Ventures

Platform-based business models are dominant business models in digital era. MSMEs are consumers and creators in ecosystem. They use platforms such as Amazon to market their products, but they also establish their own platforms, establishing “micro-ecosystems.” For instance, a local food delivery MSME could develop platform that collects food orders from 20 different local restaurants, in effect providing 20 new (or improved) entrepreneurial opportunities.

Additionally, MSMEs can use digital tools to find and dominate niche markets (Giones & Brem, 2017). In pre-digital world, a small company that specializes in handcrafted, sustainable pet toys would not be able to reach its target audience worldwide. This success makes others think about their own special interests and know that there is a global, digital market for them.

## 5. GOVERNMENT-LED ENTREPRENEURIAL SUPPORT

The Indian government promotes digital entrepreneurship through several specialized schemes:
Udyam Registration Portal: A free, paperless platform that formalizes businesses, granting them access to government subsidies and credit.

Digital MSME Scheme: Provides financial assistance (up to ₹1 lakh) for adopting cloud computing and ICT tools to improve operational efficiency.

MSME-TEAM Scheme: Specifically assists micro-enterprises, including 2.5 lakh women-owned businesses, in onboarding onto e-commerce platforms.

## 6. NETWORK PROGRAM

The aim of the digital India program is to convert the country into a technologically enabled knowledge ecosystem and society.
Ensuring citizens have electronic access to government services could be a guarantee of Digital India. The mandatory provision of the presidency's electronic services, an exclusive identity, and e-Pramaan—all of which are fully based on widely acknowledged, interoperable, integrated government packages and databases—could also inspire public responsibility.

The Digital India initiative was introduced more than a year ago, in 2015. Now that this system is in the implementation stage rather than the planning stage, major progress has been achieved in completing the numerous projects.

These nine pillars are complemented by tasks that can be accomplished at various degrees. Every task has been started and is currently being implemented in various phases.

There will be a lot of progress made on some of these projects, including Jandhan, PAHAL, smart cities, and so on.
The effective execution of the digital India initiative is hampered by a number of issues, including imprecise regulations and inadequate infrastructure.

## 7. KEY MECHANISMS OF ENTREPRENEURIAL PROMOTION

We can identify several key mechanisms through which digitally-enabled MSMEs actively promote entrepreneurship.

### 7.1 Lowering the Cost and Risk of Experimentation

An aspiring entrepreneur working within an MSME can often test their ideas using the company's existing resources. For instance, an employee has new concept for creation of digital marketing service, they can initiate providing it to MSME's existing clients. It gives immediate, real-world feedback and similar opportunities to create a portfolio without worrying about leaving stable job and beginning from scratch. MSME is a low-cost incubator.

### 7.2 Fostering "Intrapreneurship" and Spinoffs

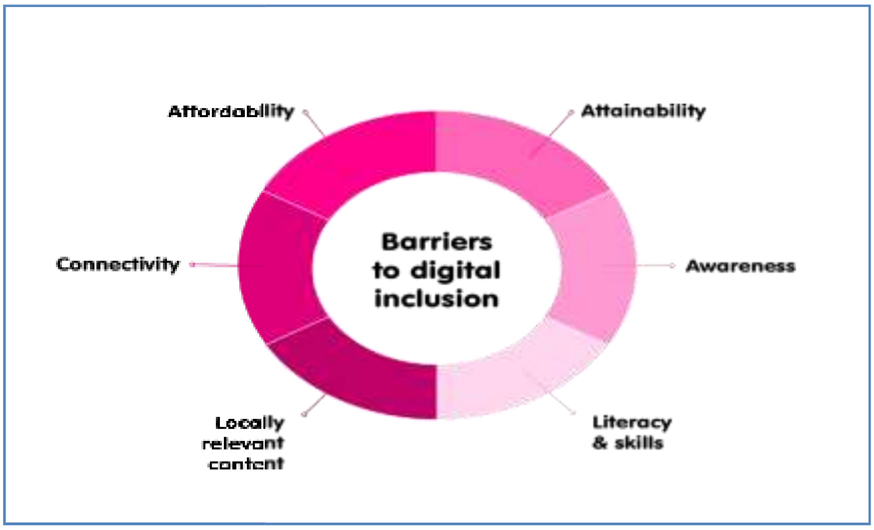
MSMEs operate in an environment where flexibility and often makers lack resources, inducing "intrapreneurship," or behavior of entrepreneur within more complex organisation. An employee aware of a consistent consumer challenge could be assigned to develop small software or new Digital service to take care of that issue. As a result of this success, MSME starts a new, profitable line of business, or employee takes idea and turns it into a new, independent startup with MSME becoming first client or even investor.

### 7.3 Creating Resilient Supply Chains and Networks

Digital technologies assist MSMEs in creating complex, resilient, collaborative networks. A small fashion designer, for instance, can select to connect to digital platforms with fabric vendors in one country, the MSME another and even digital marketing agency in third. This "ecosystem" of interconnected MSMEs is, in itself, an entrepreneurial hotbed. It generates a business demand for new, specialized digital services, such as "supply chain optimization for small ecommerce", and helps establish culture of cooperation that is essential for modern business

## 8 CHALLENGES AND BARRIERS IN THE DIGITAL LANDSCAPE

Even though these capacities are immense, the function of MSMEs as entrepreneurial promoters is not without significant challenges. These barriers must be overcome to unlock their potential.



### 8.1 The Digital Literacy and Skill Gap

The significant challenge is lack of digital literacy (ResearchGate, 2025a). Many MSME owners and employees lack foundational knowledge to apply and use digital technologies effectively. They can develop new website but don't understand what Search Engine Optimization (SEO) is, or how to collect customer data and don't have the analytical ability to make use of that information. This gap can't be addressed with them, and in return, it hinders them from mentoring a new generation.

### 8.2 Resource Constraints: Finance and Time

Digital tools can be cheap, but digital transformation needs investment. This encompasses cybersecurity, funding for training, additional software subscriptions, digital marketing campaigns. MSMEs, who are operating on extremely thin margins, may not have funding to make these types of investments (Preprints.org, 2025) Moreover, most MSME owners are time-poor due to their day-to-day routine and cannot monitor or plan for a long-term digital strategy.

### 8.3 Cybersecurity and Data Privacy

MSMEs are increasingly digital, and as such, they are more vulnerable to cyber-attack, data breaches, regulatory non-compliances, such as GDPR. One major security incident could cause a small business to go extinct. The uncertainty around these threats and lack of knowledge to tackle threats can lead to risk aversion among MSMEs and prevent them from fully adopting tools that foster innovation (INJOLE, 2023).

### 8.4 Infrastructure and Access

Reliable, high-speed internet and digital infrastructure are still significant issues in many developing areas. For MSMEs, digital economy is impossible to lead, or engage in without stable access. This "digital divide" exacerbates existing economic disparities and prevents whole regions from benefiting from entrepreneurial possibilities of digital age.

## 9.THE ROAD AHEAD: A BRIGHTER DIGITAL FUTURE

Digital transformation of MSMEs is not just about technological upgrade; it is about India's economic vision, particularly "Viksit Bharat by 2047" and "$5 trillion economy". MSMEs play a crucial role in contributing to GDP (around 30%), exports (more than 45%), employment (more than 11-25 crore people). Digitalization has direct effect on these contributions, by improving productivity, market reach, credit access, innovation.

### 9.1 Sustainable and Inclusive Growth

Digital transformation is a process of making India fairer and stronger. The digitalisation will help to generate more employment in rural areas, where more than 51% of MSMEs are present, and will also help women entrepreneurs. Research indicates that women entrepreneurs own small businesses that make up almost 20% of sector, and staggering 282% increase in women members using digital business tools on platforms such as Tide in last year. The transformation helps to alleviate poverty and provides more people with opportunity to thrive.

### Conclusion and Policy Implications

The digital age has changed definition of MSME. They are no longer just backbone of economy, but dynamic, beating heart, pumping talent, innovation, resilience throughout economy. MSMEs serve as essential incubators for entrepreneurship, providing fertile environment for digital skill acquisition, low-risk experimentation, development of new, digitally-native business models. The gap is addressed by abstract technology and practical business application, and fosters generation of entrepreneurs who are not only tech-savvy but also business-savvy.

Yet, there are also many obstacles to this potential, such as lack of digital skills, resources, infrastructure. MSMEs are key drivers of digital entrepreneurship, but for that to be realised, a concerted effort from policymakers, educational institutions, large corporations is necessary. Policy implications are evident:

- **Invest in Digital Literacy:** Governments and educational institutions must invest in development of hands-on training for MSME owners as well as employees working in digital marketing, data analysis, e-commerce management, cybersecurity beyond basic computer proficiency.
- **Provide Targeted Financial Support:** Financial incentives, grants, tax credits to support digital transformation projects in MSME, including recruitment of digital experts, investing in cybersecurity tools, adoption of new software.
- **Strengthen Digital Infrastructure:** Continuing public and private investments in low-cost, high-speed broadband, particularly to underserved and rural areas, are essential.
- **Foster Collaborative Ecosystems:** Policies should promote creation of "digital hubs" and networks for MSMEs to interact, share knowledge, collaborate with technology providers and academic institutions.

Future studies should build on longitudinal research of "spin-off" rate of new businesses from digitally mature MSMEs. Comparative analyses of various sectors and regions should also provide meaningful information to evaluate policy interventions. In conclusion, facilitating digital transformation of MSMEs isn't just means of survival for small businesses; it's a strategic investment in future of entrepreneurs.

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