

Chapter 9

Digitalization and Growth of Small Businesses

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ABSTRACT

On November 8, 2016, Government of India declared demonetization of all Rs. 500/- and Rs.1000/- currency notes towards a cashless society and create a digital India. The point of sale (PoS) and prepaid instruments are the most popular systems currently installed by merchants and service providers for receiving payments from customers. The primary focus of the study is to understand the adaptability, affordability, acceptability, and sustainability of the payments system as seen from the point of view of small merchants. A total of 221 responses were collected in Chennai. Results show that cash remains the most preferred mode for business. It is required for the working capital, payment of employee remuneration, wages, and others. With regards to the use of payment systems such as POS and prepaid instruments, awareness needs to be created of the benefits in having non-cash transactions. Improving credit worthiness and eligibility to receive loans from banks is one such benefit which would convince the merchants. However, too many systems could confuse the merchants and customers.

INTRODUCTION

The sudden announcement of demonetisation of higher denomination notes on 8th November 2016 in India led to a fast-tracking of the use of non-cash payment methods for all size of transactions. The move affected small businesses, consumers and producers alike. The disruption was severe for many because of high usage of currency in day to day transactions. Overnight, the situation forced people to opt for payment systems like prepaid instruments, mobile banking and cards for their daily transactions. The main non-cash systems used by merchants were Point of Sale (PoS) terminals and Prepaid Payment Instruments (PPIs). The usage in terms of volume and value of transactions of these increased tremendously for a short time. However, as soon as the currency level improved the usage of these payment systems

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started decreasing gradually. Could this mean that there is a preference for cash payments? What does this bode for non-cash payment measures?

With the coming of computerization, there have been studies to understand the how and why of its adoption among small businesses for their office operations. Henry M. Levin and Russell W. Rumberger (1986) found that small businesses regarded very highly education and training requirements for the adoption and use of computers. The study clearly emphasized reading, comprehension skills, and reasoning skills, rather than mathematics skills, formal computer training, or prior computer experience.

Small merchants are the decision making authority about the investment and strategy of information systems (Thong and Yap, 1995, Chau, 1995 and Ekanem, 2005). The technology adoption is determined by factors like sector, complexity, size, status, assertiveness, rationality and interaction with organisational strategy (Julien and Raymond, 1994). It was seen that the software selection criteria among small businesses varied between the owners and the managers (Chau, 1995; Raghavan V., Wani M., Abraham D.M. (2018). Owners focussed more on technical aspects while managers looked at non-technical aspects. Further it was seen that the extent of information systems adoption is mainly determined by organizational characteristics. The environmental characteristic of competition had no direct effect on small business adoption of information systems (Thong, 1999).

Milind K. Sharma (2009) surveyed the receptivity of India's small and medium-sized enterprises to the adoption of information systems utilising a portion of Rogers' model of innovation diffusion as the framework, and treating information systems as a form of new innovations. It was seen that the factors affecting the willingness to adopt information systems by SMEs significantly were relative advantage, compatibility and trialability.

Business strategies seemed to have changed for small businesses with the large-scale digitization in the new economy with specific themes – virtualization, molecularisation and disintermediation (Terence Tse and Khaled Soufani, 2003). Even so the adoption of new technologies for payments remained modest (Niina Mallat and Virpi Krishtiina Tuunainen, 2008; Francisco Liébana-Cabanillas, Iviane Ramos de Luna and Francisco Montoro-Ríos, 2017). The main adoption drivers were related to the means of increasing sales or reducing the costs of payment processing, whereas the barriers to adoption included complexity of the systems, unfavorable revenue sharing models, lack of critical mass, and lack of standardization.

The extant literature shows that despite the potential and wide availability, newer technologies are not yet widely used by small merchants. The Point of Sale (PoS) is the focus of this paper as they are predominantly used in transactions involving sale of goods and services. These are the most popular systems installed by merchants and service providers for receiving payments from customers. The paper tries to understand the adaptability, affordability, acceptability and sustainability of the PoS systems available to small merchants and the difficulties faced by them in using them. The paper is based on the survey done in the business district of Chennai, capital city of Tamil Nadu, a state in South India.

Accordingly this paper is structured as follows: Section 1 gives a brief description of the payment systems available in India; Section 2 discusses the research method used to understand the use of PoS among the small businesses; Section 3 is the data analysis and finally the conclusions.

PAYMENT AND SETTLEMENT SYSTEMS IN INDIA

Payment and settlement systems play an important role in improving overall economic efficiency. They consist of all the diverse arrangements used to systematically transfer money-currency, paper instru-

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