Analyzing The Influence Of Demonetization On Small And Medium Companies In India

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Abstract

Introduction-This part of the study develops the research aims and objectives. Further, the overall idea of demonetization has been analyzed in this part.

Literature review- It has been discussed the digital transaction and development of the cashless economy of India. Further, the overall impact of demonetization had been encountered in this section.

Methodology-The primary quantitative analysis had been conducted in this research to gather the information directly from the respondents. For this purpose, 75 respondents are selected to conduct the survey. In addition, SPSS has been done to analyze the result of the research.

Findings-The overall findings discussed that demonetization is a vital step of the government to decrease the black money in the market. The government further stopped the caution of 500 and 1000 notes in this context.
Discussion- It is the brief of the overall findings of the researcher. Furthermore, the government had several motives behind the adoption of this policy. The GDP of India has grown up positively. However, the small companies are not effectively able to deal with this policy so almost all small industries have vanished from India.
Conclusion-The overall summary of the study had been presented in this section of the research. The economy of India developed.

Keywords-Demonetization, cashless, small and medium companies

Introduction

"Demonetization" refers to eliminating the process of lawful acceptance of units of money. It is obtained whenever the official currency has been altered. The Indian government announced a rapid change in monetary policy, on 8th November, 2016 by withdrawal of rs 1000 and rs 500 notes from the market. There have been many reasons behind such steps taken by the government like reducing fake currency, black money, and controlling subversive activities. Demonetization is a policy of monetary policy in which some currency unit ceases to be used as a legal tender form.

During the process of demonetization, the currency is stopped from circulation and it has been deposited into banks. According to Meher, et al. (2021), the Government takes advantage of the demonetization of the currency in a different process from reducing and preventing the activity of criminals to present regulation. The high implementation of demonetization adversely impacts the Small and Medium Companies (SMC)which choose to run traditionally. Because of the demonetization, small-scale companies have likely to vanish from India.

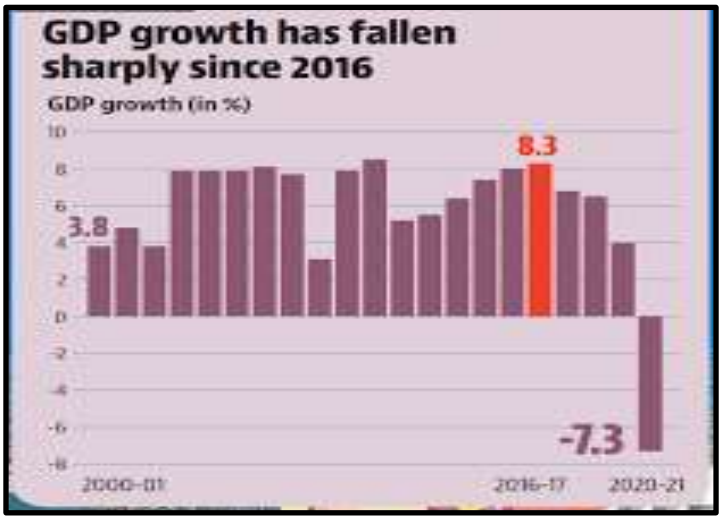

Figure 1: Effect of Demonetization in India
(Source: Meher, et al. 2021)

The above figure represents that the GDP growth of India has declined due to demonetization. It has stood at -7.3% rate in 2020 to 2021 whereas in 2016 to 2017 it has stood at 8.3%.
The main aim of this study is to evaluate the impact of demonetization on small and medium companies in India.

- To analyse the relationship between the supply of money and the influence of demonetization on Indian SME
- To determine the association between a cashless economy and the influence of demonetization on Indian SME
- To evaluate the relationship between tax evasion and the influence of demonetization on Indian SME
- To interpret the connection between digital transactions and the influence of demonetization on Indian SME

Literature review

Cashless economy and its impact on demonetization influence

Demonetization has encouraged people to use a mode of cashless payment and developed a digital environment in urban as well as rural areas in India. Further, it has been analyzed that it develops many pathways for making a cashless Indian economy. Apart from the major motive, another objective is to eliminate black money and the

laundering of money vital objective for the cashless economy. As per the view of Mahajan, (2022), During demonetization, people use digital methods such as digital wallets and credit card modes for payment. Demonetization was a smart and progressive move towards creating an economy low cash centered.

It develops a major crunch of cash in the economy. Small and Medium enterprises have been highly impacted by this move of the government. As the opinion of Pandey, (2021), The small companies in India are likely to have vanished from demonetization. Furthermore, there have been several adverse impacts of this also as cybercrime has increased. Cyber attractors can easily know the password and credit card numbers of the people who have withdrawn money from the account falsely. Hence, the e-crime has increased.

Figure 2: Cashless Indian economy
(Source: Mahajan, 2022)

The above figure represents that the adoption of demonetization has decreased the cash-based economy and increased the cashless economy. It also encourages E-payment modes like ATMs and mobile phones for digital payment. Many people are not aware of the digital solution with implementation of demonetization they are able to know.

Money supply influence of demonetization

The average growth of the supply of money in the market has decreased to 9% from 12%. Although it has been decided by RBI to print the whole 86% of the high denomination notes, the supply of money will increase with new notes being highly circulated over time. As per the opinion of Sinha, Sharma & Sheorey (2022), The move of withdrawal of 500 and 1000 notes from the market would no longer be legal tender which is legal, as part of its extermination of black money.

Demonetization leads to less cash and liquidity in the market and inflation decreases. As the money which is black hoes out the system the supply of money will reduce to some extent. As per the view of Fouillet, Guérin & Servet (2021), the rate of inflation has decreased due to the open market absence. Small companies have faced major problems dealing with the money supply. The people who pursue small businesses operate to a low degree and are not well educated to use digital payment modes. As people prefer digital sources for payment the necessity of cash has declined and the RBI decreases the circulation of cash in the economy.

Digital transactions during demonetization

The policy of demonetization in India had a vital impact on the economy of the country but it also fostered the growth of digital payments. Before demonetization, digital payment accounted for 10% of overall transactions done in India. However, after demonetization digital payment numbers have been significantly increasing and it accounts for an overall 20% in years. Further digital payment has enhanced the digital economy growth. According to Ahmed, & Sur (2021), This process of payment consumes less time and records the overall monetary transaction for future use.

Many companies have been established that provide people with digital solutions such as Paytm, Google pay and Phone Pay. As per the opinion of Ghosh, (2021) Citrizen also does digital payment through digital wallets and using debit or credit cards as well. This provides many chances to medium companies to establish their business. Although, small companies face several issues to deal with these changes.

Figure 3: Digital transactions since demonetization

(Source: Ahmed, & Sur ,202)

The above figure describes that digital transactions have increased since demonetization has taken place in India.

further it has been identified that in 2016 digital transactions have been widely increased. The people of India highly use the digital modes for each transaction.

Methodology

This study uses the primary quantitative collection method to gather information about the Demonetization in India. Through this process, authentic and accurate data has been collected. The study chose the primarily collected data to effectively collect the information and conduct the survey among 75 respondents. As per the view of Pin et al. (2021). This helps the researcher to collect data directly from the respondents through surveys. However, this process of data collection needs lots of time as there is need to develop questionably effetely that has been understood by the researcher. Furthermore, SPSS has been used to analyze and interpret the collected data. SPSS helps to give the bivariate and descriptive statistics, various predictions and outcomes provide graphics to the collected data. It increases the researcher's transferable skills by providing effective reports after conducting critical analysis.

Findings

Analysis of demographic

Gender

What is your gender?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		4	5.1	5.1	5.1
	Female	36	45.6	45.6	50.6
	Male	25	31.6	31.6	82.3
	Prefer not to say	14	17.7	17.7	100.0
	Total	79	100.0	100.0	

Table 1: Gender Frequency

(Source: SPSS)

The above figure represents the gender frequency of the respondent in the survey. It has been identified that the frequency of female respondents is 36% of total respondents. The male respondent is 25 and the 14 prefer not to state their gender.

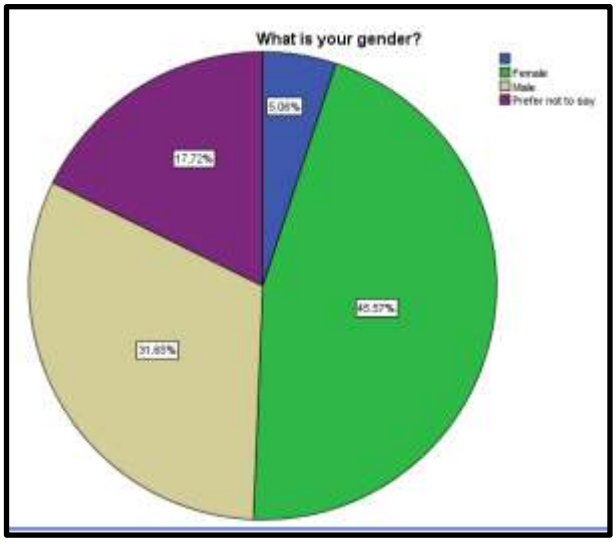

Figure 4: Gender Percentage
(Source: SPSS)

The above figure states the percentage of gender in the survey. It has been identifying that 45.57% are female,31.65% are male, 31.65 not prefer to say and 5.06% are other.

Age group

What is your age?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	4	5.1	5.1	5.1
18-25	26	32.9	32.9	38.0
26-31	14	17.7	17.7	55.7
32-40	21	26.6	26.6	82.3
41-61	14	17.7	17.7	100.0
Total	79	100.0	100.0	

Table 2: Age Prevalence
(Source: SPSS)

The above table describes the age group of the respondent. The 26 frequency of respondents belong to the 18-25 age group, 14 from 26-31, 21 from 32-40 and 41-61 respondents belong to the 14 frequency.

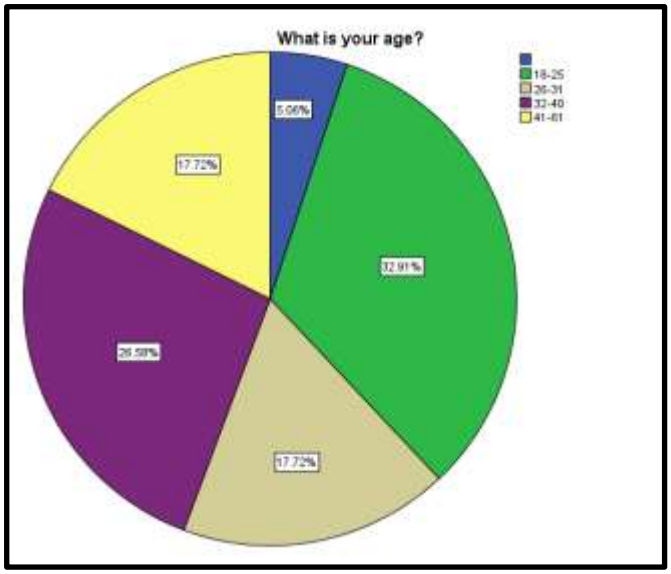

Figure 5: Age prevalence
(Source: SPSS)

The above figure states the percentage of the age group of respondents. The high number of respondents belong to the 18-25 age group which is 32.91%, 26.57% belong to 32-40, and 17.72% encountered 32-61 respondents.

"Income level"

What is your income level?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		4	5.1	5.1	5.1
	10000-19000	6	7.6	7.6	12.7
	20000-29000	19	24.1	24.1	36.7
	30000-39000	36	45.6	45.6	82.3
	40000-49000	14	17.7	17.7	100.0
	Total	79	100.0	100.0	

Table 2: Income level
(Source: SPSS)

The above table describes that the frequency of 30000-39000 income groups is more. 10000-19000 income group frequency is 6, 19 is 20000-29000 frequency and the 14 belongs to 400000 to 49000 frequency.

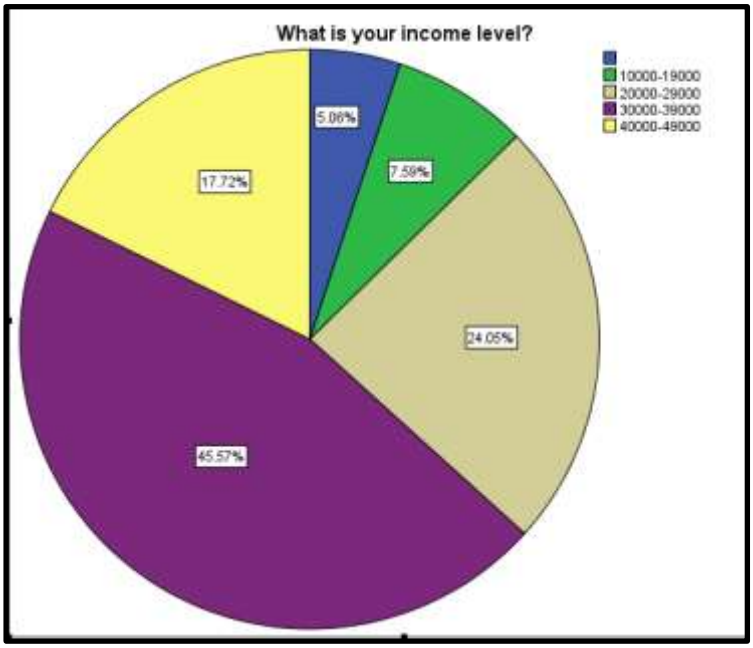

Figure 6: Income Level
(Source: SPSS)

The above graph states the percentage of the income of the respondent. It has been identified that 45.57% of respondents belong to 30000-39000, and 24.05% belong to 20000-29000.

"Descriptive Analysis"

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
IV 1	75	2	5	3.85	.926	-.541	.277	-.436	.548
IV 2	75	2	5	3.75	.960	-.690	.277	-.400	.548
DV	75	3	5	4.29	.632	-.324	.277	-.634	.548
IV 3	75	2	5	4.01	.878	-.889	.277	.414	.548
IV 4	75	1	4	3.28	.980	-1.214	.277	.355	.548
Valid N (listwise)	75								

Table 3: different variables Descriptive Analysis
(Source: SPSS)

The above table states that DV and IV are various hypothesis variables. So, the disruptive analysis describes the co-relationship between the variables. IV 1 mean value is 3.85, 2.75 for Iv 2, 4.01, and 3.28 for IV 3 and 4 respectively. 4.29 mean value is DV. The SD stood at .632 for DV, .926 for IV 1, .960 for IV 2, .878 for IV 3, and .980 for IV 4.

Regression Analysis

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.358[a]	.128	.117	.594	1.979

a. Predictors: (Constant), IV 3

b. Dependent Variable: DV

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.795	1	3.795	10.759	.002[b]
	Residual	25.751	73	.353		
	Total	29.547	74			

a. Dependent Variable: DV

b. Predictors: (Constant), IV 3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.258	.323		10.082	.000
	IV 3	.258	.079	.358	3.280	.002

a. Dependent Variable: DV

Table 4: Regression Analysis
(Source: SPSS)

The above figure highlights the different variables and states whether a relation existed between these variables or not. It has been identified that the significance value of the regression is 0.02 which is less than the p-value which is 0.05. So it is considered to be a highly significant value.

"Reliability Statistics"

Reliability Statistics

Cronbach's Alpha[a]	Cronbach's Alpha Based on Standardized Items[a]	N of Items
.053	.076	5

Table 4: Reliability Statistics

(Source: SPSS)

The above table highlights the reliability statistics of the variables. Cronbach's Alpha based on terms of standardized are 0.76 and Cronbach's Alpha is .053.

"KMO and Bartlett's Test"

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.425
Bartlett's Test of Sphericity	Approx. Chi-Square	133.635
	df	10
	Sig.	.000

Table 5: KMO and Bartlett's Test

(Source: SPSS)

The above figure represents that Sphericity Bartlett's Test has been approx. 133.635 and DF value is 10.

"Correlation Matrix"

Correlation Matrix

		IV 1	IV 2	DV	IV 3	IV 4
Correlation	IV 1	1.000	-.331	-.133	-.147	-.207
	IV 2	-.331	1.000	-.500	-.108	.105
	DV	-.133	-.500	1.000	.358	.040
	IV 3	-.147	-.108	.358	1.000	.781
	IV 4	-.207	.105	.040	.781	1.000
Sig. (1-tailed)	IV 1		.002	.127	.104	.037
	IV 2	.002		.000	.178	.185
	DV	.127	.000		.001	.366
	IV 3	.104	.178	.001		.000
	IV 4	.037	.185	.366	.000	

Table 6: Correlation Matrix

(Source: SPSS)

The above table propounds that the correlation of IV 1 is 1,-.331is for IV2, -.33 for DV, -.147 for IV3, and -.207 for IV 4. The significance value has been identified as .002 for the IV2 and .127 for the DV. The significance value of DV has stood at .127,.00, .001, and .366. IV 4 has a significance valence of .366,0.37 and .000.

Discussion

The overall research describes that Small industries are not able to adopt the digital process effectively due to many reasons. As per the view of Sharma, Sinha, & Sheorey

(2021), Small companies do have not sufficient knowledge and they are not literate enough to know the technology efficiently. Hence the lack of knowledge they are not able to use the digital solution, furthermore, it has been identified that India become cashless due to this initial policy of the government. The economy has been highly developed with this policy and black money can be reduced. There have been major changes in the overlay item of the government that have arisen with this implementation. In addition, the cashless encourages the use of technology and enhance the knowledge of people.

Digital transaction moves toward the digitally safe and provides less time-consuming payment sources. As per the view of Arora, Kaur & Kaur (2019) Electronic money is frequently tied to accounts in banks, there are many people and small companies are left without accounts in banks. Small company owners are not technologically independent. There has been a huge revenue dip encountered in small business as the customer is not able to purchase the products because of currency denomination and due to which stocks are not sold at considerable profits. However, the Indian government is able to take out the black money from the market. It decreases the physical theft of money but increases the digital theft of money. The money deposited in the banks is rapidly increasing and the government is able to effectively levy the tax. The circulation of currency has risen up in the market.

Conclusion

The overall report has concluded that demonetization has had a high impact on the economy of India. Digital transactions have increased due to this step of the government. India became cashless after the demonetization process. There have been several positive and also negative influences seen with this police. The positive impact such as it cuts the time of each transaction and makes it a faster overall process. However, cyber crimes have increased and confidential information of the people is leaked. SMEs need to change various factors of the operation and process of conducting business due to this.

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