

CS in MSMEs: Catalysing Corporate Governance at All Levels

There are 633.88 lakh MSMEs in total and 608.41 lakh MSMEs were proprietary concerns. Men predominated in proprietary MSME ownership which resulted in male holdings of 79.56% of micro businesses, 94.74% for small businesses and 97.63% for medium businesses. On the other hand, female ownership is 20.44% for micro businesses, 5.26% for small businesses and 2.77% for medium businesses. There was no discernible divergence from this pattern in both urban and rural areas. While in urban areas, the prevalence of male-owned businesses was slightly higher than in rural areas. The MSME sector is a nursery of entrepreneurship. The sector is expected to experience robust growth, characterized by the establishment of numerous enterprises.



CS Sangeeta Panchal, ACS

Partner SPSN AND ASSOCIATES
Mumbai
spacs18@gmail.com



CS Sandhya Nair, ACS

Partner SPSN AND ASSOCIATES
Pune
sn@sandhyanair.com

- Individuals, startups, business owners, and entrepreneurs,
- Private and public limited companies,
- Sole proprietorship,
- Partnership firm,
- Limited Liability Partnerships (LLPs),
- Self Help Groups (SHGs),
- Co-operative societies,
- Trusts.

There are about 633.88 lakh MSMEs in India, out of which over 99% of total MSMEs qualify as micro-enterprises that make up to 630.5 lakh enterprises. There are a total of 3.3 lakh businesses that qualify as small businesses i.e. 0.5% of all MSMEs and just 0.05 lakh qualify as medium businesses that sum of 0.01% of all MSMEs. The rural areas majorly consist of 324.9 lakh businesses, while urban areas have 309 lakh businesses.

There are 633.88 lakh MSMEs in total and 608.41 lakh MSMEs were proprietary concerns. Men predominated in proprietary MSME ownership which resulted in male holdings of 79.56% of micro businesses, 94.74% for small businesses and 97.63% for medium businesses. On the other hand, female ownership is 20.44% for micro businesses, 5.26% for small businesses and 2.77% for medium businesses.

There was no discernible divergence from this pattern in both urban and rural areas. While in urban areas, the prevalence of male-owned businesses was slightly higher than in rural areas.

The MSME sector is a nursery of entrepreneurship. The sector is expected to experience robust growth, characterized by the establishment of numerous enterprises that will upscale into small and medium-sized enterprises (SMEs).

INTRODUCTION

MSMEs IN INDIA

All manufacturing, service industries, wholesale, and retail trade that fulfil the revised MSME classification criteria of annual turnover and investment can apply for MSME registration. Thus, the MSME registration eligibility depends on an entity's annual turnover and investment. The following entities are eligible for MSME registration:

The MSME sector's transition from being predominantly unorganized to more organized will be a positive development, significantly contributing to overall economic stability and growth. This transition will lead to better regulatory compliance, improved access to finance, enhanced operational efficiencies, and greater competitiveness in both domestic and international markets.

To enhance the growth, development and competitiveness of MSMEs the Govt has launched various schemes.

Name of the Schemes	Brief description
Prime Minister's Employment Generation Programme (PMEGP):	Provides financial assistance for setting up new enterprises in rural and urban areas.
Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)	Offers credit guarantees to banks for collateral-free loans to MSMEs.
Micro and Small Enterprises - Cluster Development Programme (MSE-CDP)	Aims at enhancing the productivity and competitiveness of MSMEs by developing clusters.
Technology Upgradation Fund Scheme (TUFSS):	Supports MSMEs in upgrading their technology to improve productivity and quality.
Startup India:	Provides various benefits including tax exemptions, easier compliance, and financial support for startups, many of which fall under the MSME category.

However, there are Challenges in Implementation of these schemes:

- **Awareness and Outreach:** Ensuring that information about schemes reaches all potential beneficiaries, especially in remote areas.
- **Complex Procedures:** Simplifying application and approval processes to make them more user-friendly.
- **Monitoring:** Effectively tracking the use of funds and the impact of schemes.
- **Capacity Building:** Enhancing the capabilities of implementing agencies and beneficiaries.

Absolutely, the MSME (Micro, Small, and Medium Enterprises) landscape in India has been a cornerstone of the economy, and its growth path is indeed noteworthy. As we look ahead to 2024, several trends are likely to shape the future of this vital sector.

- It's impressive to see how sustainability has become a core focus for MSMEs, not just as a regulatory requirement but as a strategic business decision. By integrating eco-friendly practices, businesses can not only reduce costs but also appeal to a growing segment of environmentally conscious consumers.

- The e-commerce explosion presents a significant opportunity for MSMEs to expand their market reach. However, success in this realm requires more than just a digital presence; it necessitates a strategic approach to digital marketing and logistics management to thrive in the competitive online marketplace.
- Technological advancements, particularly in AI, automation, and cloud computing, are indeed vital for enhancing efficiency and productivity in MSME operations. These tools enable businesses to streamline processes and manage data more effectively, translating into tangible cost savings and competitive advantages.
- The emergence of alternative funding models like digital lending, coupled with government initiatives to simplify loan processes and improve financial literacy, is crucial for bridging the financial gap for MSMEs, especially in rural and underrepresented communities. This shift toward more inclusive financial solutions holds significant promise for empowering entrepreneurs and driving economic growth.
- As MSMEs increasingly look to global markets, understanding cultural nuances and conducting thorough market research are essential for success in international trade. Leveraging cross-border e-commerce platforms can provide valuable access to a global customer base.
- Adapting to the evolving workforce dynamics, including remote work and hybrid models, is key for MSMEs to remain competitive and attract top talent. Investing in skill development and fostering inclusive work environments will be critical in this regard.
- Government initiatives like "Make in India" and "Self-reliant India" play a pivotal role in fostering MSME development. Clarity in policies, regulatory reforms, and public-private partnerships are essential to creating an enabling environment for MSMEs to thrive. Collaborative efforts between organizations like Global Alliance for Mass Entrepreneurship (GAME) and government bodies are instrumental in driving inclusive growth and realizing the full potential of these initiatives.

The Company Secretaries are essential to the corporate structure, acting as the conscience keepers of the corporate sector. They ensure legal compliance, facilitate effective communication among stakeholders, provide crucial guidance to the board, and uphold robust governance practices within the company. Their role is fundamental to maintaining the integrity and smooth functioning of the corporate governance framework.

A Company Secretary (CS) in India is a qualified professional recognized as a Key Managerial Personnel (KMP) under the Companies Act, 2013. These professionals are members of the Institute of Company Secretaries of India (ICSI), a statutory body tasked with the promotion, regulation, and development of

the Company Secretaries profession. As KMPs, CS professionals hold senior-level management positions and an integral part to the corporate governance framework of a company.

CS Professionals act as a vital link between the company's Board of Directors, shareholders, and regulatory authorities, the CS facilitates effective communication and ensures that stakeholders are well-informed.

In a rapidly changing economy and industrial environment, the role of a Company Secretary (CS) in India has undergone significant transformation over the last three decades. The increasing emphasis on corporate governance and ethical business practices has expanded the responsibilities and influence of CS professionals, making them indispensable to modern corporate management.

In summary, the role of Company Secretaries has evolved from traditional compliance and governance duties to encompass strategic leadership and change facilitation. They are now central figures in ensuring that companies not only comply with legal requirements but also pursue sustainable growth and ethical business practices. The expanded scope and increased responsibilities under recent legislative changes underscore the critical importance of CS professionals in the modern corporate landscape.

Evolution and Expansion of the Company Secretary's major Role:

Sr. No.	Particulars	Descriptions
1	Vigilant Stakeholder Compliance	Stakeholders are increasingly vigilant about compliance, making it essential for CS professionals to meet these expectations rigorously and consistently.
2	Broader Professional Dimensions	From being traditional conscience keepers, CS professionals have evolved into compliance officers, governance experts, advisors, and strategists. They now play a pivotal role in guiding corporate growth and ensuring sustainable practices.
3	Leadership and Change Facilitation	Modern CS professionals act as facilitators for change, helping decision-makers set strategic directions that aim for excellence. Their leadership is crucial in navigating the complex regulatory and economic landscapes.

4	Enhanced Responsibilities under New Legislation	The Companies Act, 2013, and the Insolvency and Bankruptcy Code, 2016, have significantly increased the responsibilities of CS professionals. They are now more accountable for ensuring strict legal compliance and addressing any issues related to law evasion and financial misrepresentation. The government's focus on stringent compliance measures and actions against shell companies has further heightened the role of CS professionals.
5	Strategic Involvement and Governance	CS professionals are now integral to top management decision-making processes. They help frame and implement operational structures and policies, ensuring that the company's activities align with corporate governance requirements and best practices.
6	Coordinator Role	CS professionals serve as coordinators in the administration of a company's business and affairs. They ensure the effective execution and implementation of management policies set by the Board. The role extends both internally, involving coordination with the Board, Chairman, Managing Director, and auditors, and externally, managing relationships with shareholders, regulators, and the government.

The role of CS professionals continues to expand, encompassing a variety of specialized tasks, including Indian Companies Act, Trademarks Act, Income Tax Act, Goods and Services Tax Act, Securities and Exchange Board of India Act, Securities Contracts (Regulation) Act, Competitions Act, Real Estate (Regulation and Development) Act, Foreign Exchange Management Act, Consumer Protection Act, Depositories Act, Environment and Pollution Control Laws, Labour and Industrial Laws, Co-operative Societies Act, Copyrights Act, Designs Act, Patent Laws, Food Safety and Standards Act, Legal Metrology Act, Arbitration and Conciliation Act and many other local as well as international laws.

The role of a Company Secretary has significantly evolved, becoming more comprehensive and integral to the success and governance of corporations. CS professionals are now strategic leaders and coordinators, ensuring that companies navigate regulatory complexities while fostering sustainable growth and ethical business

practices. Their expanding responsibilities underscore their critical importance in the modern corporate world.

EXPANDED ROLES AND RESPONSIBILITIES OF COMPANY SECRETARIES EVOLVES AROUND THE

a) Strategic Leadership

- **Business Strategy:** Company Secretaries are increasingly involved in shaping business strategies, advising on mergers, acquisitions, and other growth initiatives.
- **Risk Management:** They identify potential risks and develop strategies to mitigate them, ensuring the company's long-term stability and growth.

b) Governance and Compliance

- **Regulatory Adherence:** Ensuring that the company complies with all relevant laws and regulations, thus avoiding legal pitfalls.
- **Corporate Governance:** Implementing and maintaining robust governance frameworks that promote transparency, accountability, and ethical behavior within the organization.

c) Sustainable Growth

- **CSR and Sustainability:** Leading corporate Social Responsibility (CSR) initiatives and promoting sustainable business practices that align with global standards and contribute to long-term success.
- **Stakeholder Engagement:** Facilitating effective communication and engagement with stakeholders, including investors, regulators, and the community, to build trust and support.

d) Ethical Business Practices

- **Code of Conduct:** Developing and enforcing a code of conduct that guides the ethical behavior of the company's employees and management.
- **Whistleblower Policies:** Establishing mechanisms for reporting unethical behavior and ensuring that such reports are handled appropriately.

e) Coordination and Communication

- **Board Coordination:** Organizing and documenting Board meetings, ensuring that decisions are well-recorded and implemented.
- **Interdepartmental Liaison:** Acting as a bridge between different departments to ensure cohesive and efficient operations.

Company Secretaries serve as key advisors to the board and management on matters of corporate governance. They guide MSMEs in establishing robust governance structures, defining roles and responsibilities, and setting up effective internal controls. This helps in fostering a culture of accountability and ethical business practices.

f) Training and Development

- **Employee Education:** Organizing training programs to educate employees on regulatory changes, compliance requirements, and ethical standards.
- **Leadership Development:** Facilitating leadership development programs to build a strong pipeline of future leaders.

g) Technology Integration

- **Digital Transformation:** Leading digital transformation initiatives to improve operational efficiencies and governance practices through technology.
- **Data Management:** Ensuring robust data management and cybersecurity practices to protect sensitive information.

h) Global Operations

- **International Compliance:** Managing compliance with international regulations and standards, especially for companies operating across multiple jurisdictions.
- **Cross-border Transactions:** Advising on cross-border transactions and ensuring compliance with relevant laws and regulations.

The expanding role of Company Secretaries reflects their critical importance in the modern corporate world. Their expertise not only ensures regulatory compliance and effective governance but also supports strategic growth and the implementation of sustainable and ethical business practices. By fulfilling these multifaceted roles, Company Secretaries contribute significantly to the stability, reputation, and overall success of their organizations.

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively

lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.

Addressing the Udyami Bharat Programme in New Delhi, Hon'ble PM said the Micro, Small and Medium Enterprises (MSME) sector accounts for almost one third of India's economy and it has a very important role in India's growth journey. He added that for the government MSME means Maximum Support to Micro Small and Medium Enterprises and said a self-reliant fund of 50 thousand crore rupees has been released for the sector.

Micro, Small, and Medium Enterprises (MSMEs) are crucial for economic growth, especially in developing economies. Governments often introduce various schemes to support the growth and development of MSMEs. Here's an overview of how these schemes are typically implemented:



Sr.No.	Broader Headings	Particulars	Description
1	Identification of Needs	Assessment and Surveys	Conducting surveys and assessments to identify the needs and challenges faced by MSMEs.
		Consultations:	Engaging with stakeholders including MSME owners, industry associations, and experts to gather insights.
2	Designing the Scheme	Objective Setting:	Defining clear objectives for the scheme, such as access to finance, technological upgrades, skill development, market access, etc.
		Policy Formulation	Drafting policies and guidelines that outline the scope, eligibility criteria, benefits, and
3	Implementation strategies.	Approval and Budget Allocation	Government Approval: Obtaining necessary approvals from relevant government bodies or ministries.
		Budget Allocation	Securing financial resources through budgetary allocations.
4	Implementation Mechanism	Implementation Agency	Designating specific agencies or departments to implement the scheme. This could include ministries, state-level agencies, or dedicated institutions like SIDBI (Small Industries Development Bank of India).
		Collaboration:	Partnering with banks, financial institutions, training institutes, and other stakeholders for smooth execution.
5	Awareness and Outreach	Information Dissemination	Using media, workshops, seminars, and digital platforms to spread awareness about the scheme.
		Capacity Building	Training local bodies, officials, and partners involved in the implementation.
6	Application and Enrolment	Online Portals:	Setting up online portals for easy application and tracking.
		Simplified Procedures:	Ensuring the application process is straightforward with minimal paperwork.
		Helpdesks	Establishing helpdesks and support centers for assistance. Monitoring and Evaluation.
		Regular Monitoring:	Setting up a monitoring framework to track the progress and effectiveness of the scheme.
		Feedback Mechanism	Collecting feedback from beneficiaries to identify areas of improvement.
		Impact Assessment	Conducting periodic impact assessments to evaluate the outcomes and make necessary adjustments.

Implementing MSME schemes involves a multi-faceted approach that includes identifying needs, designing appropriate policies, securing funding, raising awareness, and setting up robust monitoring mechanisms. By addressing the challenges and leveraging technology, the effectiveness of these schemes can be significantly improved, fostering the growth and sustainability of MSMEs.

COMPANY SECRETARIES PLAY A CRUCIAL ROLE IN THIS TRANSITION BY PROVIDING THE FOLLOWING ADVISORY SERVICES TO MSMEs

Corporate governance in Micro, Small, and Medium Enterprises (MSMEs) is crucial for ensuring transparency, accountability, and sustainable growth. Corporate governance frameworks help MSMEs build trust with stakeholders, attract investment, and enhance their operational efficiency. Here's how Company Secretaries (CS) can play a pivotal role in catalyzing corporate governance at all levels within MSMEs:

1. Regulatory Compliance

Company Secretaries ensure that MSMEs comply with relevant laws and regulations. This includes filing necessary documentation, adhering to statutory requirements, and staying updated with changes in the regulatory environment. By ensuring compliance, CS help MSMEs avoid legal pitfalls and penalties.

2. Board and Management Advisory

CS serve as key advisors to the Board and management on matters of corporate governance. They guide MSMEs in establishing robust governance structures, defining roles and responsibilities, and setting up effective internal controls. This helps in fostering a culture of accountability and ethical business practices.

3. Facilitating Transparent Decision-Making

CS facilitate transparent decision-making processes within MSMEs by ensuring proper documentation of Board Meetings, decisions, and policies. This transparency is crucial for building stakeholder trust and ensuring that decisions are made in the best interest of the company.

4. Risk Management

Company Secretaries help MSMEs to identify and mitigate risks through the development of risk management frameworks. They ensure that MSMEs have strategies in place to handle financial, operational, and reputational risks, which is essential for long-term sustainability.

5. Corporate Social Responsibility (CSR)

Even though MSMEs may not be mandated to engage in CSR activities like larger corporations, CS can encourage them to adopt sustainable and ethical practices. This can enhance their reputation and align their operations with broader societal goals.

6. Training and Development

CS play a role in training and developing the management and employees of MSMEs on corporate governance practices. They conduct workshops, seminars, and training sessions to educate staff about the importance of governance, ethical practices, and compliance.

7. Stakeholder Engagement

Effective stakeholder engagement is key to good corporate governance. CS help MSMEs communicate effectively with stakeholders, including investors, employees, customers, and regulatory bodies. This ensures that the interests of all parties are considered in the decision-making process.

8. Enhancing Financial Management

Good corporate governance practices often lead to better financial management. CS help MSMEs implement financial controls, audit mechanisms, and reporting systems that enhance financial transparency and integrity.

9. Succession Planning

CS assist MSMEs in developing succession plans to ensure business continuity. This involves identifying and grooming future leaders within the organization and establishing protocols for smooth transitions.

10. Ethical Conduct and Corporate Culture

Company Secretaries help instill a culture of ethical conduct within MSMEs. They develop codes of conduct, whistleblower policies, and other ethical guidelines that promote integrity and responsible business practices.

The role of Company Secretaries in catalyzing corporate governance in MSMEs is multifaceted and vital. By embedding good governance practices, CS help MSMEs to navigate regulatory complexities, build stakeholder trust, and achieve sustainable growth. This, in turn, contributes to the overall health and competitiveness of the economy.

By fulfilling these roles, Company Secretaries not only help MSMEs to navigate the complexities of the business environment but also position them for sustainable growth and enhanced economic contribution. Their expertise is crucial in transforming MSMEs into more organized, efficient, and competitive entities.

REFERENCES:

- i. <https://www.icsi.edu/media/webmodules/CSJ/june/11ArticleDrKrishnatHChougaleAmarDPatil.pdf>
- ii. <https://msme.gov.in/sites/default/files/MSMEANNUALREPORT2022-23ENGLISH.pdf>
- iii. <https://www.indiafilings.com/learn/benefits-of-udyam-registration-for-msme/>
- iv. <https://timesofindia.indiatimes.com/blogs/voices/msme-in-india-present-scenario/>
- v. <https://www.icsi.edu/media/webmodules/CSJ/june/11ArticleDrKrishnatHChougaleAmarDPatil.pdf>
- vi. <https://www.coinmen.com/changing-roles-and-scope-of-company-secretaries-in-india-comparing-the-past-and-the-present/>
- vii. <https://www.forbes.com/advisor/in/business/msme-statistics/>
- viii. <https://msme.gov.in/sites/default/files/MSME-Strategic-Action-Plan.pdf>
- ix. <https://massentrepreneurship.org/msmes-in-2024-steering-india-towards-a-brighter-economic-future/> 