Don't dampen MSME ambition

There has been wide coverage in the media and by professional bodies of some of the recommendations of the High-level Committee on Non-financial Regulatory Reforms relating to micro, small and medium enterprises (MSMEs). They are both welcome and worrisome. Any effort to simplify processes, reduce time, cost, and human energy spent on regulation and compliance is welcome. However, anything that potentially inhibits a small business's desire or ability to scale is worrisome.

To become stronger and more resilient, they need to be encouraged and enabled to aggressively grow revenue and generate the surplus and borrowings needed for investing — to drive customer acquisition, acquire productivity- and efficiency-enhancing tools, move up value chains, improve and widen market offerings and footprint, or hire skilled people. This is especially true for micro companies, the bulk of MSMEs, that are precarious because their small size and well-known difficulty in borrowing make them vulnerable to even small shocks.

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We know from experience how incentives, financial or otherwise, have perversely encouraged companies to remain small, instead of enabling them to seize opportunities to grow and flourish, buoyed by India's steadily growing economy and increasing global cachet, as well as the benefits of the digital era of easily accessible and shared professional resources. Today's mindset, on all sides, should be one of wanting to benefit by growing quickly, not by staying small; of increasing long-term gain, not reducing short-term pain. Goods and Services Tax (GST) exclusion, for example, reduces the chances of becoming suppliers to large companies that want GST offsets and whose business increases stability and resilience.

The focus of the committee on reducing the pain of compliance and "streamlining" should hopefully be embraced as a core objective henceforth by every government/regulatory agency, benefiting all, irrespective of size. Hopefully, it should spur the creation of a new digital public infrastructure, a "compliance stack", enabling easy filing of all forms and returns, with multiple ways to input data, so that compliance can be DIY (do it yourself).

Lowering the cost of compliance should be a regulator-centred endeavour and not a firm-centred one, achieving the goal without lowering the bar via exemptions and risking the collateral damage of weaker governance or less rigorous bookkeeping. Banks often cite the quality of financial information as a reason why they find it hard to lend to standalone small businesses that are not a part of the supply chain of large companies. Instead of relaxing auditing requirements and exacerbating the trust deficit between banks and small businesses, perhaps specifying a narrower audit scope could help, and hopefully artificial intelligence (AI) products will soon crash audit costs. The government already has expertise in building leading-edge digital ecosystems, which it could leverage to build shared accounting platforms and certified compliance intermediaries (competition will keep prices low).

Board meetings four times a year are far better than once, especially for startups and entrepreneur-driven organisations. Improving the governance quotient of all small companies is important if they are to access public money even if from private markets. Board meetings and compliance reviews conducted at these meetings are useful forcing devices for businesses to regularly pay attention to housekeeping and finances, to hire financial help, and to resist temptations to cross lines with the intent of making good later. Incidentally, board meetings cost very little, now that they can be done online, and there are plenty of very competent good-hearted board member volunteers (whose database the Ministry of Corporate Affairs or MCA can maintain too!)

Good governance builds clean and solid businesses right from the start and replacing bad habits with good ones later on is hard to do. The Startup 20 Engagement group under India's G20 presidency issued a framework for startups to build governance "from inception to maturity", embedding it as a core part of their business.

Startups know now that strong board governance does not derail companies. It derisks them and can sometimes save founders from themselves by raising the red flag when needed on strategic or financial adventurism.

A ready-to-scale MSME sector needs to be built on the same foundations of rigorous compliance and good governance. There is a mental (and hence legal) model that needs to be revisited that startups are different from MSMEs. The idea that one is expected to dream and grow and access external growth capital while the other is expected to stay small and play small and be told to do less for less is a caste system that needs to be abolished.

All businesses today should have digital central nervous systems and modern rules and practices if they are to belong in the modern world in addition to business smarts — which Lilliput Indian businesses have amply demonstrated. In fact, there is a large group of B2C small businesses that sits at the confluence of two high focus economic policy areas — spurring domestic consumption and strengthening MSME. They have found mention in large company chairman's speeches as being strong competition. They have already grabbed considerable market share using superior customer intimacy, smart innovation and lower prices and they are ready to scale. They need encouragement, not exemptions, finance and streamlined compliances, not governance holidays.

The writer is the author of *Lilliput Land: How Small is Driving India's Mega Consumption Story*