

Executive Summary

As the predominant form of business and employment, small and medium-sized enterprises (SMEs) are key actors for building more inclusive and sustainable growth, increasing economic resilience and improving social cohesion. In fact, across the OECD, SMEs account for about 60% of employment and between 50% and 60% of value added and are the main drivers of productivity in many regions and cities. Yet, smaller firms face long-standing size-related barriers in dealing with stringent business conditions or accessing strategic resources. In practice, SMEs are a major target of public policy, and they are central to the policy agenda of many governments seeking responses to the challenges raised by globalisation and digitalisation.

SME structure is broadly comparable and stable across OECD countries overall, and SMEs generally concentrate in specific services with lower resource requirements. However, many dynamic changes are taking place, especially in areas highly exposed to the digital transformation. In fact, SMEs are a very heterogeneous population whose performance in terms of productivity, wages paid and international competitiveness, vary considerably across sectors, regions and firms.

Enterprise creations have picked up, especially in services, but newly created jobs are concentrated in low-productive and low-wage sectors

New enterprise creations are back to pre-crisis levels in many countries. SMEs drove employment growth in market services between 2010 and 2016, notably in wholesale and retail trade.

Most new entries and job creation took place in sectors with below average productivity levels, and new firms are often smaller (so likely less productive). In addition, productivity gaps between smaller and larger firms have increased at the aggregate business level, even if SMEs outperform large enterprises in the services sector in many countries.

More lower-productivity jobs has resulted in more lower-paid jobs. SMEs, even the larger ones, typically pay employees around 20% less than large firms. For example, between 2010 and 2016, close to 90% of all new jobs in France were created in activities with below average wages, while this figure stood at two-thirds in Germany and the United Kingdom, and over three-quarters in the United States.

These findings shed new light on the wage stagnation observed in OECD countries in a context of economic recovery and rise of employment. As current business dynamics weigh on income and material well-being, concerns may arise about the education and training prospects of the workforce, the sustainability of pension systems, the breadth of the tax base and public acceptance of technological change and globalisation.

Innovation is key to boost productivity, and digitalisation offers SMEs new opportunities to take part in the next production revolution

Innovation is key to boost productivity and drive an increase in wages. Emerging digital technologies, such as big data analytics, artificial intelligence and 3D printing, enable greater product differentiation and mass customisation, better integrated supply chain systems and, overall, new digital-enhanced business models that leverage shorter distance and time to markets. These developments are likely to benefit smaller and more responsive businesses.

Digitalisation also supports open sourcing and open innovation, with large firms contributing to the transformation of business ecosystems through business accelerators and innovation labs that provide start-ups and innovative SMEs with access to resources and markets.

Digitalisation creates a range of innovative financial services for SMEs, from peer-to-peer lending, to alternative risk assessment tools, to Initial Coin Offerings (ICOs). Blended models are on the rise, the Fintech becoming more central in the SME finance landscape.

Digitalisation also eases SME access to skills through better job recruitment sites, outsourcing and online task hiring, or by connecting them with knowledge partners.

SMEs operating in information and communication technologies (ICT) activities are particularly well placed to reap the benefits of digitalisation. In fact, they increased their shares of total activity across nearly all OECD economies between 2010 and 2016, despite concerns about market concentration and winner take-all dynamics. SMEs have increased their share of value added by over 10% in Finland in computer programming, in Ireland in telecommunications, and in Lithuania and Italy in publishing activities.

Digitalisation can also help SMEs integrate global markets and global value chains (GVCs)

Digitalisation has created effective mechanisms to reduce size disadvantages in international trade, such as by reducing the absolute costs associated with transport and border operations. In addition, the fragmentation of production worldwide has provided smaller businesses with significant scope for competing in specialised GVC segments and scaling up activities abroad, while capturing international knowledge spill-overs and capitalising on more robust growth in emerging markets.

As a matter of fact, wage gaps with large firms are smaller for exporting SMEs and for highly productive SMEs, particularly those at the frontier of the digital revolution.

SME market conditions have improved overall, but there are risks on the horizon

Market conditions for SMEs have improved since the great financial crisis. SME have restored their profit margins, credit conditions are accommodative and financing options are more numerous. There are however signs that growth has now peaked, and risks are emerging from fragile economic growth, inflationary pressures and trade tensions. GVCs have lost momentum, with global foreign direct investment (FDI) at its lowest level since 2013. In the event of a new economic slowdown, SMEs are likely to be hard hit.

Automation and 3D printing are placing in question the rationale for offshoring based on costs of labour. Multinationals (MNEs) seeking to improve supply chain resilience and flexibility may reorient their production back to the OECD area, with uncertain consequences for SMEs. Whereas domestic SMEs could benefit from reintegrated on-shored activities, SMEs already integrated in GVCs could see the scope for participating in value chains significantly reduced.

In addition, FDI is increasingly targeted towards the acquisition of digital assets, reinforcing the role of MNEs in building the global digital infrastructure and the importance of MNE-SME linkages for SME technology upgrading.

SMEs must be better prepared for the digital transition

SMEs lag in digitalisation, and the smaller the firm, the less likely they are to adopt digital-enhanced business practices. SMEs are also less proactive in protecting their data and not as prepared to face cybersecurity threats. This places them at risk of becoming weak nodes in complex and hyper-connected infrastructure systems.

SMEs are also less likely to have the skills for managing their digital transformation and still too few of them engage their employees in ICT training. In addition, SMEs continue to face skilled labour shortages, especially in management, communication and/or problem-solving skills, which are crucial for innovation.

Recent progress made in engaging in vocational education programmes and closing the training gap to large firms must be strengthened in order to bridge the skills divide. Furthermore, while the increase in non-standard jobs may create opportunities for outsourcing, it may also exacerbate SME difficulties in finding talents and trained workers in the long run.

Government approaches to SME&E policy are increasingly varied

While governments in the OECD area and beyond tend to converge in their broad strategic orientations for SME&E, approaches to policy design and implementation are quite different across countries.

There is a broad-based focus on accelerating innovation diffusion to SMEs and ensuring they keep pace with the digital transformation; engaging SMEs in upskilling; scaling up innovation networks and MNE-SME linkages; and levelling the playing field in product markets, public procurement and 'lead' innovative markets. OECD governments have also undertaken pro-growth reforms aiming to the lower administrative and tax burden and enforce smart regulation. On the other hand, the pace of structural reforms has slowed in recent years, particularly as regards insolvency regimes and offering entrepreneurs a second chance.

Nevertheless, there is a large mix of approaches and, in some areas, diverging viewpoints on how to unleash SME and entrepreneurs' potential. While some countries have sought to mainstream SME policy considerations in other policy agendas, others specifically target SMEs with tailor-made instruments, often combined with place-based or sector-wide policy mixes.

For instance, innovation support packages have been revamped to better target SMEs. Currently, SMEs across most OECD countries receive relatively more public support for R&D than they spend on R&D. Accelerators and incubators are sprouting worldwide,

turning cities into hubs for data-driven innovation and experimentation. Among those governments seeking to help SMEs go global, some frame SME support within their national export strategy or industrial policy, while others provide SMEs and MNEs with targeted incentives. Likewise, countries are taking radically different approaches to their regulatory and supervisory frameworks for ICOs.

Digitalisation is also a game changer for high quality public services to SMEs.

Digitalisation offers SMEs access to higher quality public services, as it enables more efficient interactions with public administration and a more user-centric approach to policy making. Applications are already spreading across a broad range of areas, from business development services, to license systems, to tax compliance, to courts.

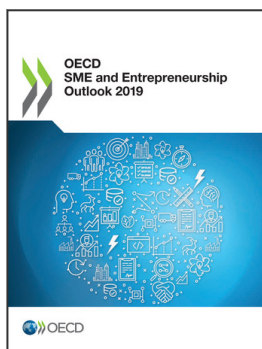
E-government and dedicated online platforms are facilitating consultations and service delivery to SMEs. Greater data availability, combined with behavioural insights, is enabling governments to better adapt their services and operations to user preferences, and also creating room for policy experimentation (e.g. tax compliance by design).

Open Government Data initiatives give SMEs access to new data at reduced costs and support SMEs in building a portfolio of intellectual property rights (IPRs). Data protection frameworks are being legally reinforced, with efforts aiming to harmonise legislations across jurisdictions and make IPR use easier and more predictable.

These developments call for innovative policy action and a whole-of-government approach

The heterogeneity of the SME population, the diversity of their business ecosystems and the pressing challenges ahead call for a fundamental rethinking of SME&E policy. A whole-of-government approach will be a key factor of success, including efficient multi-level governance arrangements across national and subnational levels, regions and cities, international peer learning and enhanced monitoring and evaluation capacity.

Effective design, implementation and evaluation of SME&E policies require more and better data, as well as stronger evidence on policy synergies, complementarities and trade-offs. Through this *SME and Entrepreneurship Outlook*, the OECD will continue to foster enhanced international cooperation to ensure SMEs and entrepreneurs can reach their full potential and contribute to build more resilient, sustainable and inclusive societies.



From:
OECD SME and Entrepreneurship Outlook 2019

Access the complete publication at:

<https://doi.org/10.1787/34907e9c-en>

Please cite this chapter as:

OECD (2019), "Executive Summary", in *OECD SME and Entrepreneurship Outlook 2019*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/290a3fb0-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.