

## *Reader's guide*

### **Background**

As the predominant form of business and employment, small and medium-sized enterprises (SMEs) are key actors for economic resilience, productivity and inclusiveness. Yet, smaller firms face particular size-related barriers in accessing finance, skills, technology and the knowledge-based capital that are required for innovating, driving competitiveness and growing, which, in the aftermath of the 2008-09 global financial crisis, may have compounded long-standing productivity and wage gaps with larger firms. These barriers are not only symptomatic of sub-optimal credit and labour markets; they also reflect disproportionate impacts of the regulatory environment, for example administrative burdens and inefficiencies in tax systems, inhibiting a level playing field for SMEs.

Against the backdrop of slowing productivity growth and widening –or persistent– inequalities, addressing these challenges is a high priority for governments. Major shifts in socio-economic systems, including growing digitalisation and the new industrial revolution, increased global integration of the economy, the changing nature of work, demographic changes and environmental pressures call for innovative policy solutions.

Better understanding the nature of these challenges and, indeed, having a clearer view of where they exist is critical, and, in this respect, it is no coincidence that governments the world over are looking more closely at ways in which they can capitalise on the potential of SMEs to drive inclusive growth in particular, including through the adoption of successful best-practice policies implemented in other countries.

These needs were echoed at the 2018 SME Ministerial, where Ministers and high-level representatives from 55 OECD Member and Non-Member countries adopted the *Declaration on Strengthening SMEs and Entrepreneurship for Productivity and Inclusive Growth* (OECD, 2017<sup>[1]</sup>).

This is why the OECD has intensified and scaled up work to better understand how the policy environment may impact SME performance and the potential effects of policy improvements over time, taking into account structural conditions and reforms, the heterogeneity of the SME population and the diverse contributions of small businesses to inclusive growth.

Earlier work in this area provides preliminary insights for governments to monitor their business environment and SME performance in an internationally comparable way, and to benchmark the effectiveness of policies promoting SME development and entrepreneurship (OECD, 2017<sup>[2]</sup>). This new biennial flagship publication strengthens the evidence base, and extends the scope of policies under review and the coverage to a greater number of OECD and G20 countries.

## Contents and structure

### ***Chapter 1. SME structure and business dynamics: Recent trends and performance***

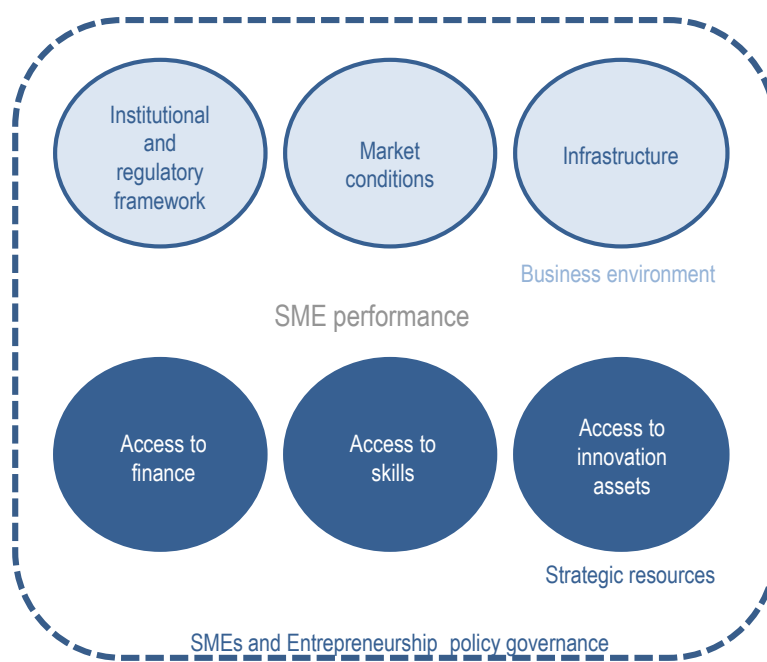
Chapter 1 of the SME and Entrepreneurship (SME&E) Outlook provides detailed empirical evidence on the composition and economic contributions of SMEs, and on the changes that have occurred in SME structure and performance over the last decade, focusing in particular on trends in SME productivity and wage performance. Where data allows, it also offers insights on cross-country and cross-sectoral differences in SME performance and business dynamics, and insights into how digitalisation and globalisation are impacting on SME performance.

### ***Part I. SME business conditions and policy responses: A cross-country analysis***

Part I of the Outlook aims to benchmark countries' business conditions and provide insights on recent national SME&E policy developments with a view to exploring national approaches for improving the business environment for SMEs and entrepreneurship. It presents a series of thematic sections, with each section structured in a standardised way, first introducing the reasons why the issues under discussion are important for SMEs and entrepreneurship, and then presenting major trends and main recent policy developments in the area.

Part I is therefore structured along a conceptual framework composed of six pillars, underpinned by a cross-cutting element on SME and entrepreneurship policy governance (Figure 1). The thematic sections discuss the state and evolution of framework conditions for entrepreneurship and SME development and the conditions under which SMEs can access and make use of strategic resources.

**Figure 1. SME&E Outlook: Conceptual framework**

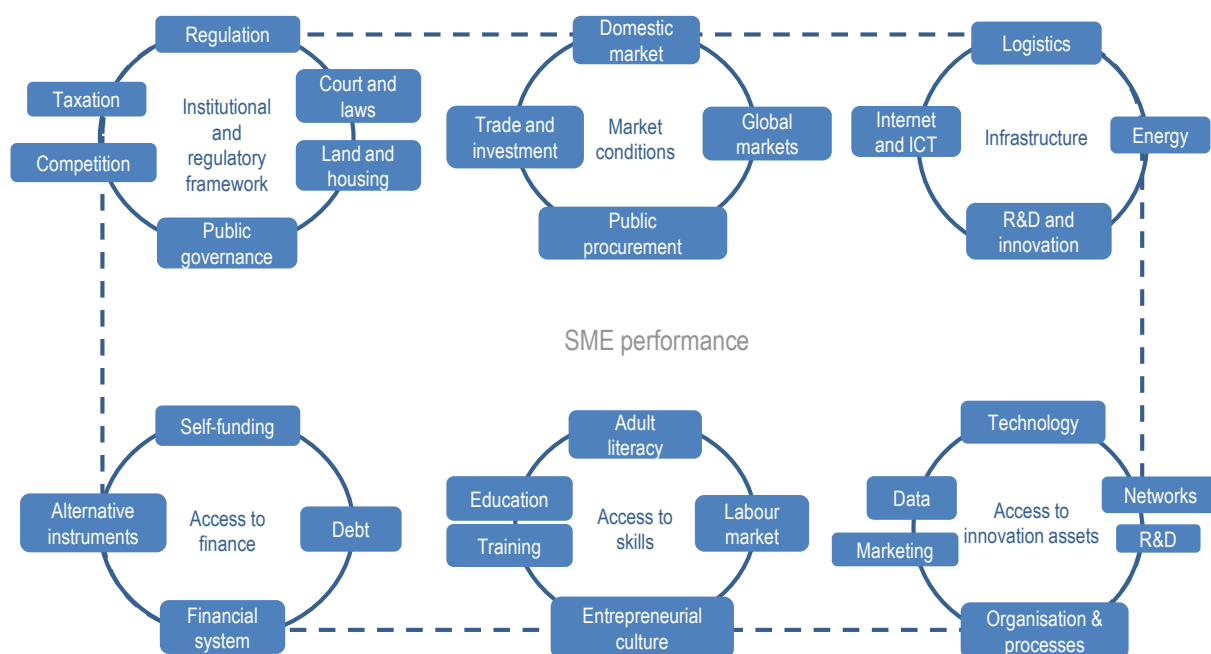


The first three pillars consider the business environment and framework conditions under which SMEs can do business and grow. SMEs are typically more dependent on their business ecosystem than larger firms. Smaller firms are more vulnerable to deficient framework conditions, market failures and economic shocks, while inefficient infrastructure hampers their access to markets and the strategic resources they need to operate.

The second three pillars of Part I consider the extent to which SMEs can access and make use of strategic resources. Smaller firms are typically at disadvantage as compared to larger firms in accessing funding, appropriate skills and innovation assets (i.e. technology, data, business models and organisational practices, networks etc., either in their tangible or intangible forms). Yet financial capital, human capital and knowledge-based capital are key production factors and the determinants of firms' competitiveness in knowledge-based economies.

Figure 2 provides a more detailed view.

**Figure 2. SME&E Outlook: detailed conceptual framework**



*Institutional and regulatory framework conditions for SMEs*

Although regulatory barriers to entrepreneurship have declined over time and efforts have aimed to cut the red tape for businesses and improve transparency and cost-efficiency of public administration, the complexity of regulatory procedures is still a major obstacle for SMEs and entrepreneurs. Costs of complying with administrative requirements remain comparatively higher for smaller businesses. Inefficient insolvency regimes limit the restructuring of viable firms and the second chance offered to entrepreneurs.

This section covers a broad range of issues such as product market regulation, employment regulation, firm creation regulation and insolvency regimes, taxation,

competition, court and legal framework, and public governance, including e-government. Some considerations on the quality of land administration for doing business are also introduced.

### *Market conditions*

There is a large cross-country diversity in the opportunities and challenges for SMEs to access markets. Conditions for entering international and public markets have generally improved for SMEs in recent years, as explicit barriers to trade and investments have been reduced; increased public attention has been given to levelling the playing field; and improved infrastructure, especially information and communication technologies (ICT), has helped SMEs reach scale without mass and get involved in global activities.

This section places emphasis on the domestic market so as to account for the fact that SMEs are primarily local actors embedded in nearby markets and ecosystem. Issues such as internal market dynamics (e.g. concentration, specialisation, digitalisation etc.), positioning in global value chains (GVCs) and the presence of multinationals (MNEs), the size and practices of public procurement or the prevalence of the informal economy are explored.

### *Infrastructure*

Physical, digital and network infrastructure is the foundation of a dynamic business ecosystem. The quality of infrastructure is especially relevant for SME entry into distant markets and engagement in GVCs. Likewise, well-functioning infrastructures ensure secure and cost-efficient access to strategic resources. Typically, market and system failures discourage large-scale investments and partnerships that would be needed for strengthening and maintaining quality infrastructure, making this issue a policy domain of predilection. Governments play a key role as facilitator in building public-private partnerships, implementing system-enabling instruments (e.g. interfaces, platforms) or setting standards, etc.

This section looks at infrastructure capacity and performance in various areas including logistics and transport, energy, internet and ICT (e.g. digital security and price) and domestic R&D and innovation. Particular efforts are made for examining the presence of world innovation hubs in countries and capturing the density of domestic and international knowledge networks.

### *Access to finance*

Accessing appropriate sources of finance across all stages of their life cycle is critical for SMEs to start, innovate and grow. Bank lending as the most common source of external finance for SMEs has largely recovered after the financial crisis making it easier for SMEs to access credit. Alternative sources, including asset-based and equity funding, have also become more widespread, offering multiple and competing options to different profiles of firms and investors. Yet, SMEs remain undercapitalised and heavily reliant on straight debt. Barriers both on the supply side (i.e. information asymmetries, lack of collateral and higher transaction costs, etc.) and on the demand side (i.e. lack of awareness and financial skills, etc.) persist, and recent evidence suggests that financial institutions have become even more risk-averse, placing an extra burden on high-risk SMEs or on firms without collateral.

This section builds on the work carried out for the Financing SMEs and Entrepreneurs: an OECD Scoreboard as well as the G20/OECD High-Level Principles on SME Financing (OECD, 2018<sup>[3]</sup>). It intends to differentiate traditional sources of funding from alternative

forms, especially in the context of the digital transition (e.g. cryptocurrencies and initial coin offerings, peer-to-peer lending and crowdfunding, etc.). It also looks at firms' self-funding capacity and the state of the banking system as data allow.

#### *Access to skills*

SMEs face greater difficulties in identifying, attracting and developing skills than larger firms. Although efforts to build entrepreneurship competencies have increased significantly over time, recent survey results show that people are not more confident in their ability to start a business. Yet skills are key assets for technology and innovation absorption and for managing the organisational changes needed during the transition.

This section combines a focus on entrepreneurial culture with a focus on human capital and skills development. Issues such as student enrolment and performance in formal education, adult literacy, training access, entrepreneurial culture and education, and skills use at work are developed. In addition, this section examines labour market conditions, including job quality and the scope of skills mismatch (as reflected in employment and unemployment trends), non-standard employment and job strain.

#### *Access to innovation assets*

Innovation results from a process of accumulation through which firms increase their stock of knowledge-based capital.

This section gives a strong focus on the stock of tangible and intangible knowledge assets SMEs can access and manage by exploring the diffusion of key ICT tools in firms and looking at the extent to which SMEs have built enough internal capacity to participate in technology-intensive activities or integrating R&D and innovative networks. It covers various issues including technology equipment, intellectual property rights (patents, trademarks), new IT-enabled organisational and marketing practices, R&D and innovation performed by SMEs and SME integration into innovation networks.

### ***Part II. Insights on national SME performance and policies: country profiles***

Part II is composed of individual country profiles aiming to provide insights on SME performance and entrepreneurial trends in each country and to present recent policy initiatives implemented in countries to foster business dynamics and support SMEs in innovating and scaling-up.

The structure of the country profiles follows the conceptual framework of Part I (Figure 1 and Figure 2) and information is presented in three sections: i) national SME sector structure and performance, ii) SME access to strategic resources and iii) SME business environment. The content of the country profiles is standardised and harmonised in order to enable international comparison (see the methodological annex of the country profiles).

Part II covers 36 OECD countries. An abridged version of the profiles is available in the publication, while a full version with more statistical and benchmarking tools is available online. The online version also proposes profiles for several emerging economies for which data and policy information is available.

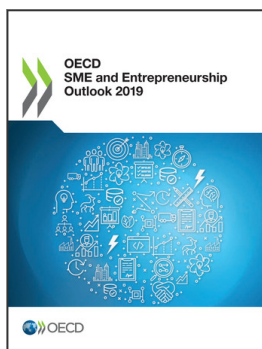
### **Sources and resources**

The SME&E Outlook builds on SME-related work carried out across the OECD and beyond, including on measurement and indicators.

Chapter 1 primarily builds on i) the OECD databases of official business statistics, in particular the *Structural and Demographic Business Statistics (SDBS)* and *Trade by Enterprise Characteristics (TEC)*, databases that are built by the OECD in cooperation with national statistical offices and Eurostat; ii) indicators developed from the macro-linking of data from these two databases with other official statistics; and iii) the OECD *Productivity Statistics* database containing productivity measures computed using the OECD *National Accounts* and *Employment and Labour Market Statistics* databases. The chapter also relies on the *OECD Timely Indicators of Entrepreneurship* database, covering official statistics and administrative data, and on enterprise statistics from new data sources, such as *Facebook-OECD-World Bank Future of Business Survey*, as relevant for the analysis.

Part I on SME and entrepreneurship business conditions and policies leverages various recent OECD exercises of policy information collection and major international reports across a range of policy areas, and mobilises a large set of standardised indicators in order to characterise countries' business environments and analyse trends in a forward-looking approach.

The benchmarking indicators used in Part II to monitor SME business environment and performance are drawn from a broad range of primary OECD and non-OECD data sources. The inventory of indicators was conducted taking into account criteria of SME policy relevance, international comparability, regularity in data collection, country coverage and fair comparability over time. Primary data sources are presented in more detail in the methodological annex of the country profiles. Policy information was drawn from recent OECD and non-OECD exercises of policy information collection and major international reports, in the same vein as for Part I.



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