

Editorial

Unleashing the Potential of SMEs and Entrepreneurs A renewed policy and measurement agenda

As we experience a series of significant changes in our economies and societies, small and medium-sized enterprises (SMEs) are important actors in the transition: they provide the main source of employment, constitute the industrial fabric of many regions and cities, contribute to the identity of local communities in both urban and rural areas, and are essential elements in domestic and global value chains. With the right conditions in place, SMEs and entrepreneurs can play a role in fostering income equality and ensuring that the benefits from technological change and globalisation are more broadly shared.

Yet, despite increased policy awareness of the role of SMEs, and continued efforts to level the playing field, barriers remain which prevent SMEs and entrepreneurs from operating efficiently, seizing new market opportunities, pursuing growth aspirations and generating good quality jobs. Many SMEs and entrepreneurs struggle to adapt to new technologies, cope with regulatory and administrative burdens, and access strategic resources – including skills, knowledge and finance – needed to compete in a globalised economy.

As recognised in the 2018 *OECD Declaration on Strengthening SMEs and Entrepreneurship for Productivity and Inclusive Growth*, dismantling remaining barriers is essential to ensure that SMEs do not get trapped in low-innovation, low-productivity and ultimately low-growth and low-wage activities, with all the implications this has for inequality and well-being. This *OECD SME and Entrepreneurship Outlook* provides evidence of the urgency for policy makers to address these challenges, in order to raise overall labour productivity and living standards.

A different way forward is possible. Start-ups and SMEs can be a primary source of innovation, adapting supply to different contexts or user needs and responding to new or niche demand. Growth in strategic sectors such as software, nanotechnology, biotechnology and clean technologies, is largely driven by new and small firms, which often bear the risks and costs of early market developments. In professional, scientific and technical services, small firms often lead in productivity, ahead of larger enterprises. Innovative entrepreneurship and business models are emerging, which, by leveraging digital technologies, are contributing to change business practices and shape the future of work.

In light of these important transformations, a renewed policy agenda on SMEs and entrepreneurship by governments around the world has emerged. This new agenda recognises the complexity of the SME policy space, which often cuts across the boundaries of different ministries and government agencies, as well as across different levels of government.

Often these policies can unintentionally pull in different directions, which is why a cross-cutting strategic perspective on SMEs is needed. Such a holistic approach can help to develop a coherent policy platform that recognises the interplay between market structures, institutions and regulatory frameworks and enables potential synergies to be exploited while avoiding trade-offs. The combined effects of structural reforms and policies targeted to SMEs also need to be better understood in order to identify good policy mixes.

Furthermore, unleashing the potential of SMEs and entrepreneurs requires a better understanding of who they are, acknowledging their significant diversity in terms of firm size, age, ownership, location, business models, and also entrepreneurs' background and aspirations. A lack of data on firm heterogeneity can be a significant handicap towards developing evidence-based policies that can dismantle barriers and drive SME growth.

As part of the overall agenda on SMEs, it is clear that we need more and better data, in particular more robust and comparable evidence on SMEs' diverse characteristics. Based on official statistics, OECD indicators and policy analysis, this report brings together a wealth of detailed information on the structure of the SME population, SME performance, business conditions and policies according to a comprehensive conceptual framework. However, with changes in the economy, driven by globalisation and digitalisation, this information is no longer sufficient. New data that can capture heterogeneity, both in terms of outcomes (i.e. firm performance) and inputs (e.g. capacities), as well as data on barriers, are crucial for the policy agenda.

This first edition of the *OECD SME and Entrepreneurship Outlook* offers a starting point to deepen the OECD's work on SMEs. Responding to the call of governments for tools to monitor the business environment for SMEs and entrepreneurs, it adds momentum to meeting the goal of developing coherent policies on SMEs and entrepreneurship, grounded on better data. It builds on decades of research and international SME policy dialogue and leverages unique working methods that bring together extensive multi-stakeholder networks and a solid evidence base on OECD member and partner countries.

As we renew our policy and measurement agenda on SMEs and entrepreneurship, we believe this novel report can serve as a cornerstone for future work, and provide support to governments in countries, regions and cities in developing better SME and entrepreneurship policies.



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