OECD SME and Entrepreneurship Outlook: Strengthening SME productivity in the digital economy

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The OECD WPSMEE is a global platform for policy discussion on SME policy

- SME Financing Scoreboard and G20/OECD High Level Principles on SME financing
- Benchmark of SME performance, framework conditions and targeted policies – forward-looking analysis
- In-depth country reviews of SMEs policies and issues, support for the design of SMEs Strategies at national level
- Evidence-based studies on key challenges facing SMEs, with formulation of policy recommendations
**New benchmarking tools and insights on good policy practices**

### OECD SME and Entrepreneurship Outlook 2019

#### TRENDS

Recent and emerging trends in entrepreneurship and SME performance

#### FORWARD-LOOKING

Opportunities and challenges for SMEs and entrepreneurs in a digitalised and global economy

#### POLICIES

Comparative analysis of regulatory frameworks and policies that impact SMEs and entrepreneurs, and latest national developments (36 country profiles)
SMEE Outlook conceptual framework

SME performance

Source: Conceptual framework of the OECD SME & Entrepreneurship Outlook 2019
SMEs ARE THE PREDOMINANT FORM OF BUSINESS AND EMPLOYMENT, BUT HIGHLY HETEROGENEOUS
SMEs in the OECD area account for about 2/3 of employment and ½ of value added.

One out of three people work in a micro firm.

Similar structure across countries and overall stable over time

- SME employment concentrated in **market services**

- Top five sectors accounting for 60% of SME employment (unchanged between 2010 and 2016)

  - Wholesale and retail trade ~20-40%
  - Manufacturing ~10-30%
  - Construction ~7-18%
  - Accommodation Food ~2-22%
  - Professional services ~5-15%

- Large **heterogeneity in the SME population**, within and across countries
RECENT TRENDS:
SMES ARE DRIVING JOB GROWTH
BUT MOST NEW JOBS ARE CREATED IN LOW-PRODUCTIVE ACTIVITIES
The SME engine has begun to pick up again

New firm creations are back to pre-crisis levels in many countries

... and bankruptcies decreased


New firms are driving job creation in most OECD countries

Employment growth by size class, contributions and percentage change between 2010 and 2016

In Japan, established SMEs have provided a relatively higher contribution

But firms are born smaller and new jobs are created in low-productive sectors

Jobs created by births in sectors with above-median productivity, % total jobs created by enterprise births

… particularly in low-productive service activities

... which have resulted in more lower-paid jobs, contributing to wage stagnation

- SMEs typically pay employees around 20% less than large firms.
- Between 2010 and 2016, close to 90% of the net new jobs in France, 75% in the United States, and 66% in Germany and the United Kingdom, were in lower-wage sectors.
- Wage gap is smaller for exporting SMEs
DIGITALISATION AND
INTERNATIONALISATION ARE KEY
CHANNELS TO RAISE SME
PRODUCTIVITY, BUT MANY SMES ARE
LAGGING BEHIND
Digitalisation opens up new opportunities for SMEs and entrepreneurs to innovate and scale up

- **Digital business platforms** ease access to markets, strategic resources and networks, reducing SME structural disadvantages (*scale without mass*)

- **Big data analytics** allow greater customisation and product differentiation

- **Digitalisation** supports open sourcing and open innovation, easing SME participation
**Fintech** has the potential to revolutionise SME access to finance

**Online alternative finance** (equity crowdfunding and peer-to-peer lending), as a share of GDP

Some small markets experienced huge increases recently.

Activities are relatively small in continental Europe, Brazil and Japan.

![Graph showing online alternative finance as a share of GDP for different countries over three years.](chart.png)
Financial market structures are evolving...

- Established players are leveraging complementarities
  - Fintechs generally co-exist with established financial players, not replace them: complementarity and cooperation
  - Potential to disrupt certain “niche” activities more profoundly (e.g. wealth management, remittances settling payments)

- “Big tech” companies are moving in
  Ant Financial (former Alifinance) loans to vendors in Alibaba’s platforms since 2010, Amazon Lending, PayPal Working Capital, Mercado Crédito (Latin America).
... and financial regulation is adapting

- Regulatory sandboxes (UK FCA, Australia, Canada)
- New licensing reforms for Fintech companies (Switzerland)
- Enhanced clarity in crypto-assets regulations (France)
- Regulated Fintechs to widen financial sector competition (Brazil, Mexico)

Innovative policy practices, aside from regulatory aspects, are emerging
- UK Bank Referral Scheme
- Hong Kong Monetary Authority eTrade Connect Platform
Digitalisation can support internationalisation, with benefits for SMEs

Firms trading internationally
% of all firms, July 2017 – April 2018

- SMEs are more active in **indirect exports** (as suppliers to direct exporters) than direct exports
- Achieving scale without mass
- Operating local, selling global (digital platforms)
- Integration into **GVCs**
  - Reducing input and trade **costs**
  - Niche markets and specialisation
  - Accessing **technology, knowledge & finance** within supply chains

Source: OECD SME& Entrepreneurship Outlook 2019
Some SMEs are taking the lead at the digital and knowledge frontier

- Productivity champions in knowledge-intensive services (e.g. professional, scientific, technical services)
- Increased share of value added in ICT segments

**Telecommunication**

But many SMEs are lagging behind in adopting productivity-enhancing digital technologies

Adoption rates (%), OECD average, 2018

<table>
<thead>
<tr>
<th></th>
<th>Small firms</th>
<th>Large firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Website</td>
<td>73%</td>
<td>94%</td>
</tr>
<tr>
<td>Social media</td>
<td>48%</td>
<td>71%</td>
</tr>
<tr>
<td>Enterprise Resource Planning</td>
<td>27%</td>
<td>76%</td>
</tr>
<tr>
<td>E-commerce</td>
<td>19%</td>
<td>45%</td>
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<tr>
<td>Cloud computing</td>
<td>28%</td>
<td>57%</td>
</tr>
<tr>
<td>Data analytics</td>
<td>10%</td>
<td>33%</td>
</tr>
</tbody>
</table>
Divides in high-speed broadband connectivity are widening

Difference in penetration rates between small and large firms, %, 2011-18

SMEs lack skills for managing the digital transformation

Businesses providing **ICT training** to their employees, % by size, 2012 vs. 2017

Source: OECD SME and Entrepreneurship Outlook 2019, based on ICT Access and Usage by Businesses Database.
.. and investment in complementary knowledge-based assets

Global Value Chains have lost momentum and trade tensions darken SME market prospects

POLICY TRENDS:
SCALE OF CHALLENGES CALLING FOR INNOVATIVE POLICY SOLUTIONS
Scaling up SME capacity

• **Encouraging SME technology update**
  - Financial, technical, training assistance
  - Partnerships to increase ICT uptake
  - Improving digital risk management

• **Strengthening SME innovation**
  - SME considerations mainstreamed in innovation policies
  - Better targeting of innovation support packages

• **SME upskilling**
  - Consolidating vocational education and training systems
  - Apprenticeships
  - Reducing training costs for SMEs
  - Promoting workplace training
  - Management coaching and training
Building a supportive environment for SMEs

• **Scaling up networks and strengthening MNE-SME linkages**
  - Cluster policies
  - Accelerators and incubators
  - FDI attraction and MNE-SME collaboration

• **Enhancing access to diverse financing instruments**
  - Regulatory frameworks for Fintech
  - Increased public support to Venture Capital
  - Credit guarantee schemes broadened to start-up and innovative SMEs

• **More and better infrastructure**
  - Strategic partnerships with private sector
  - Multi-level approaches
  - Digital networks, large-scale R&D infrastructures
  - Platforms for technology transfer
Improving institutional and regulatory framework

• **Levelling the playing field in access to markets**
  - Pro-competition market regulation
  - Improving SME access to public procurement

• **Smart regulation**
  - Integrating SME-related considerations upstream
  - Encouraging broader stakeholders’ consultation
  - Reinforcing regulatory impact analysis

• **Digitalisation of public services**
  - E-government and on-line platforms
  - Use of behavioural insights for a more user-centric approach
  - Open Government Data
A renewed measurement and policy agenda

• **Understanding SME heterogeneity**
  More and better 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.

• **Whole-of-government approach (OECD Strategy for SMEs)**
  - Understanding trade-offs and synergies
  - Efficient multi-level governance arrangements across national and subnational levels, regions and cities.
  - Coordination and cooperation of multiple stakeholders.
2019-20 Programme of work

- Enabling SMEs to seize the benefits of digitalization
  - Blockchain & AI, skills, access to infrastructure
  - Digital for SMEs multi-stakeholder dialogue
- Enhancing SME productivity
  - Compendium of Good Practice Policies for Productive Entrepreneurship (Japan SME Agency)
- Fostering SME access to finance
  - SME Finance Scoreboard
  - Alternative financing instruments (fintech, trade finance)
- Improving SME participation in GVCs
  - MNE-SMEs linkages
- Ageing entrepreneurs: easing SME business transfer
- Monitoring and evaluation
THANKS

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