



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

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RIETI, Tokyo

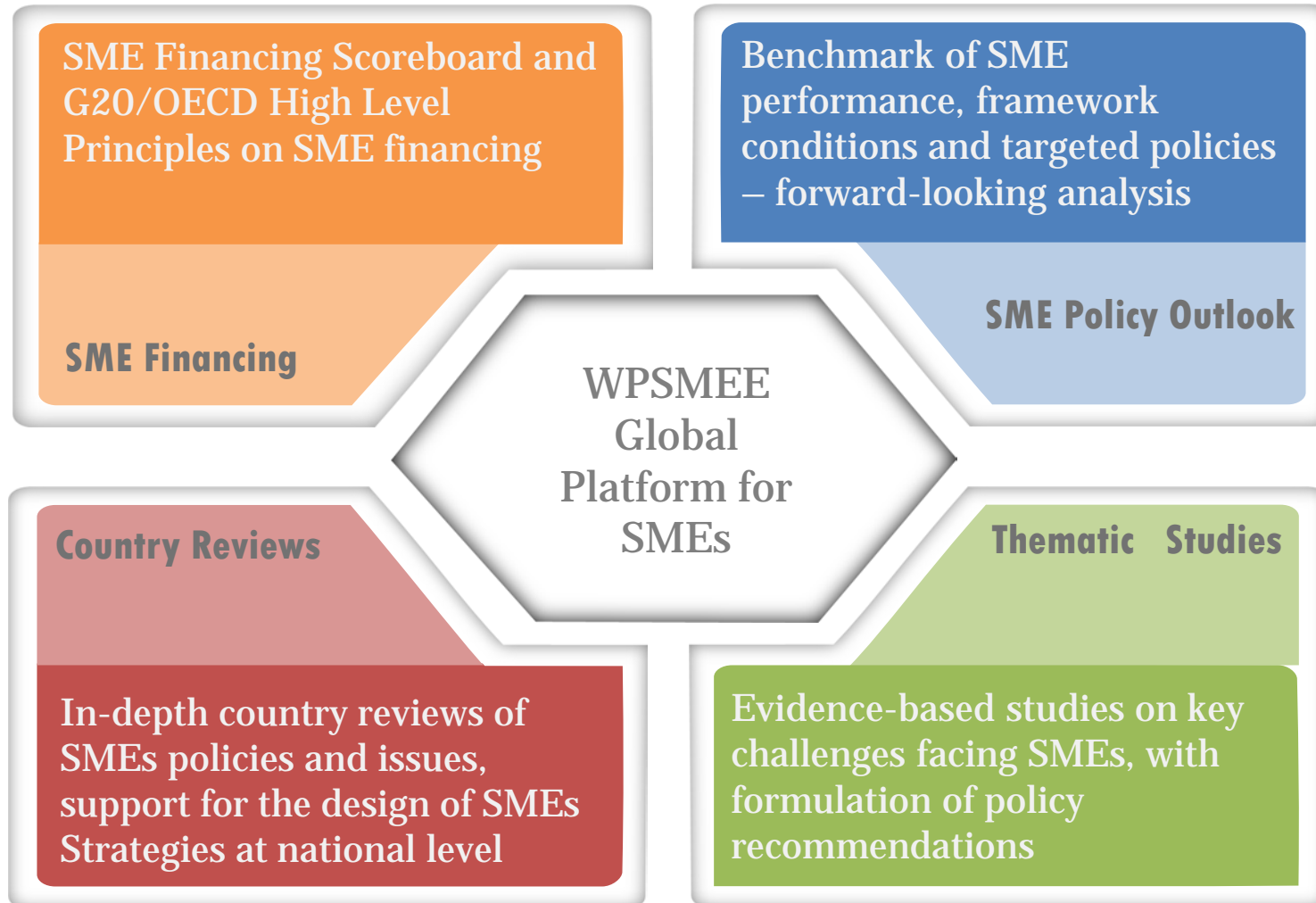
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The OECD WPSMEE is a global platform for policy discussion on SME policy





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

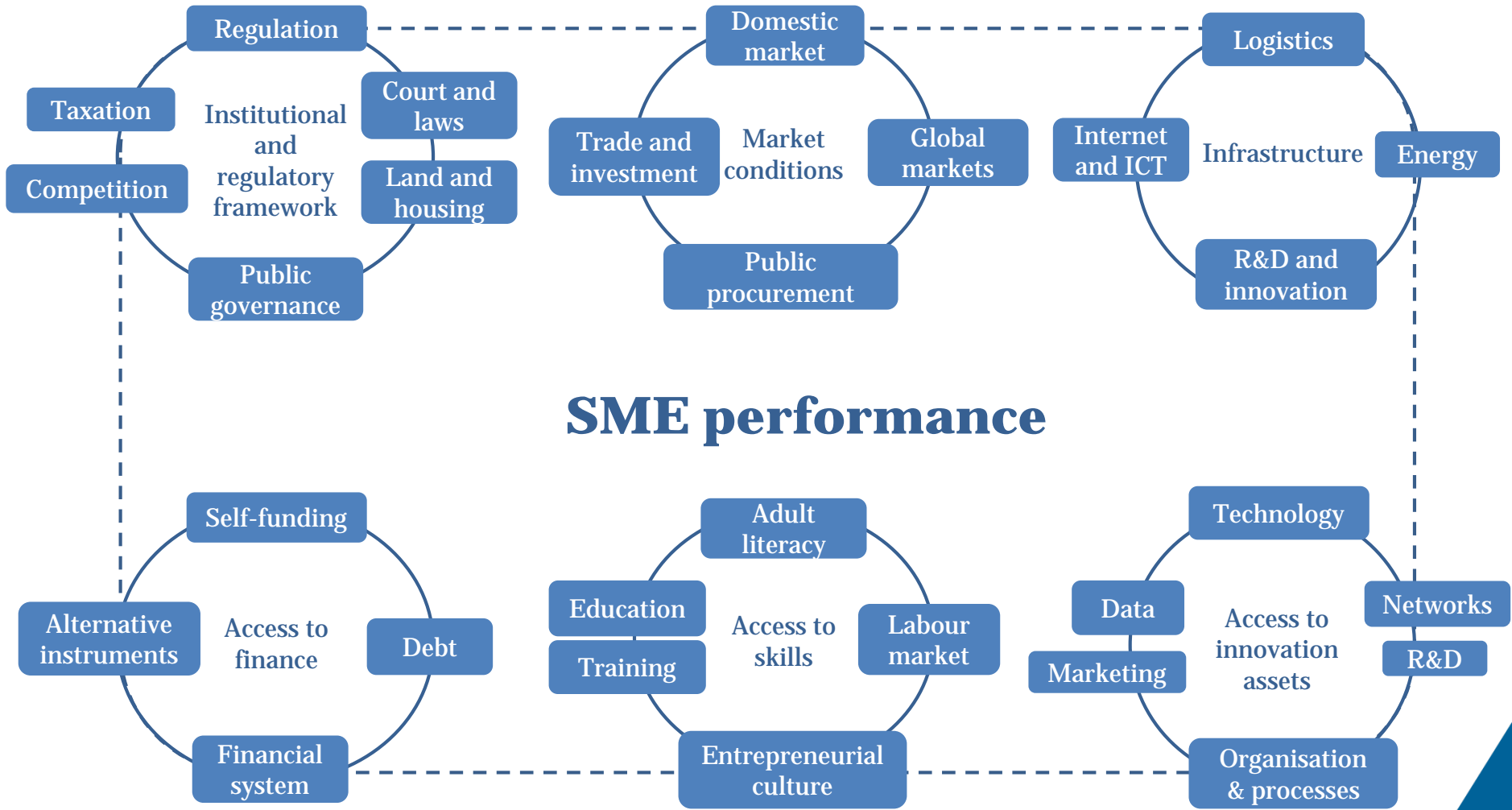
Opportunities and challenges for SMEs and entrepreneurs in a digitalised and global economy

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 & entrepreneurship policy governance



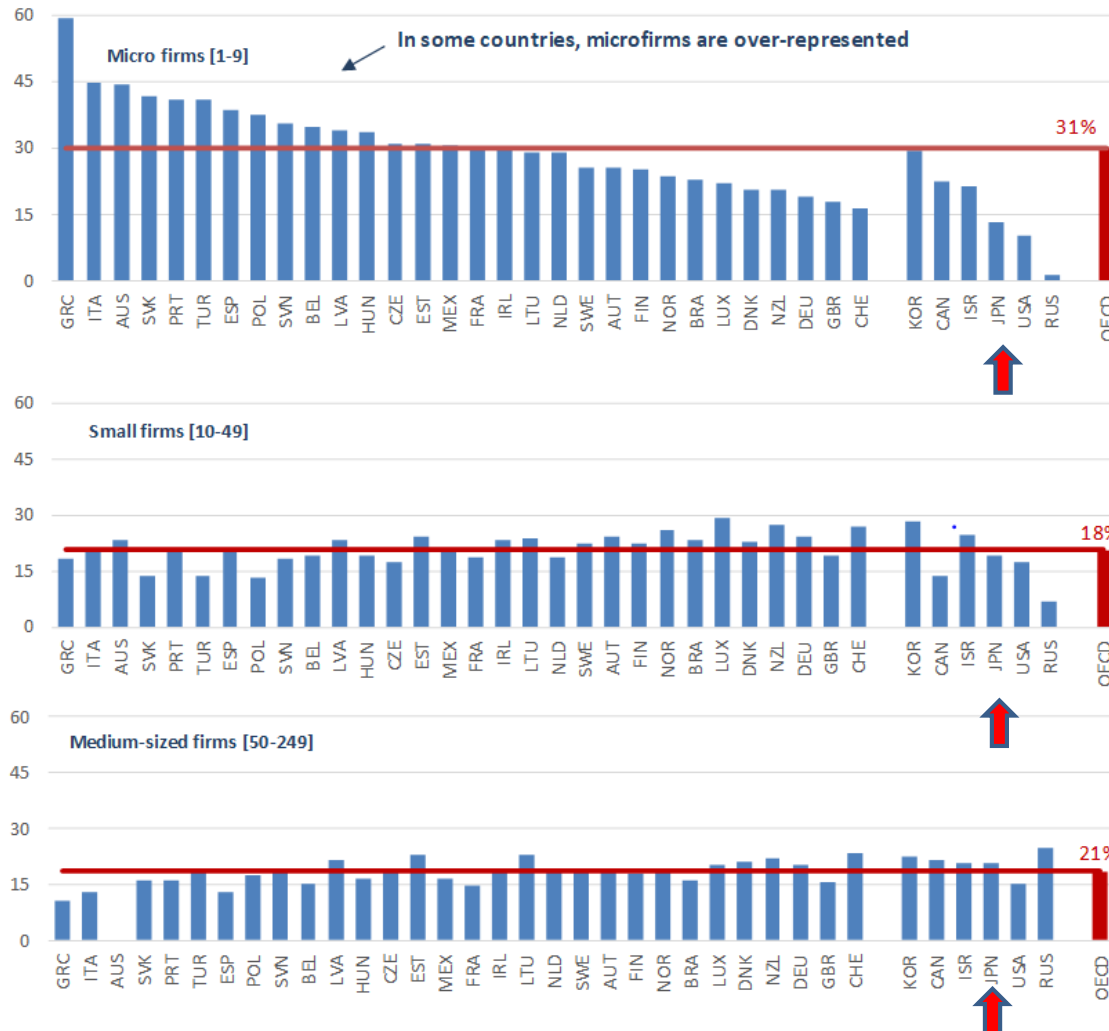
SMEs ARE THE PREDOMINANT FORM
OF BUSINESS AND EMPLOYMENT,
BUT HIGHLY HETEROGENOUS



SMEs in the OECD area account for about 2/3 of employment and 1/2 of value added

One out of three people work in a micro firm

Percentage of all persons employed by firm size class, 2016 or latest year available



Source: OECD SME and Entrepreneurship Outlook 2019, OECD Publishing, Paris



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

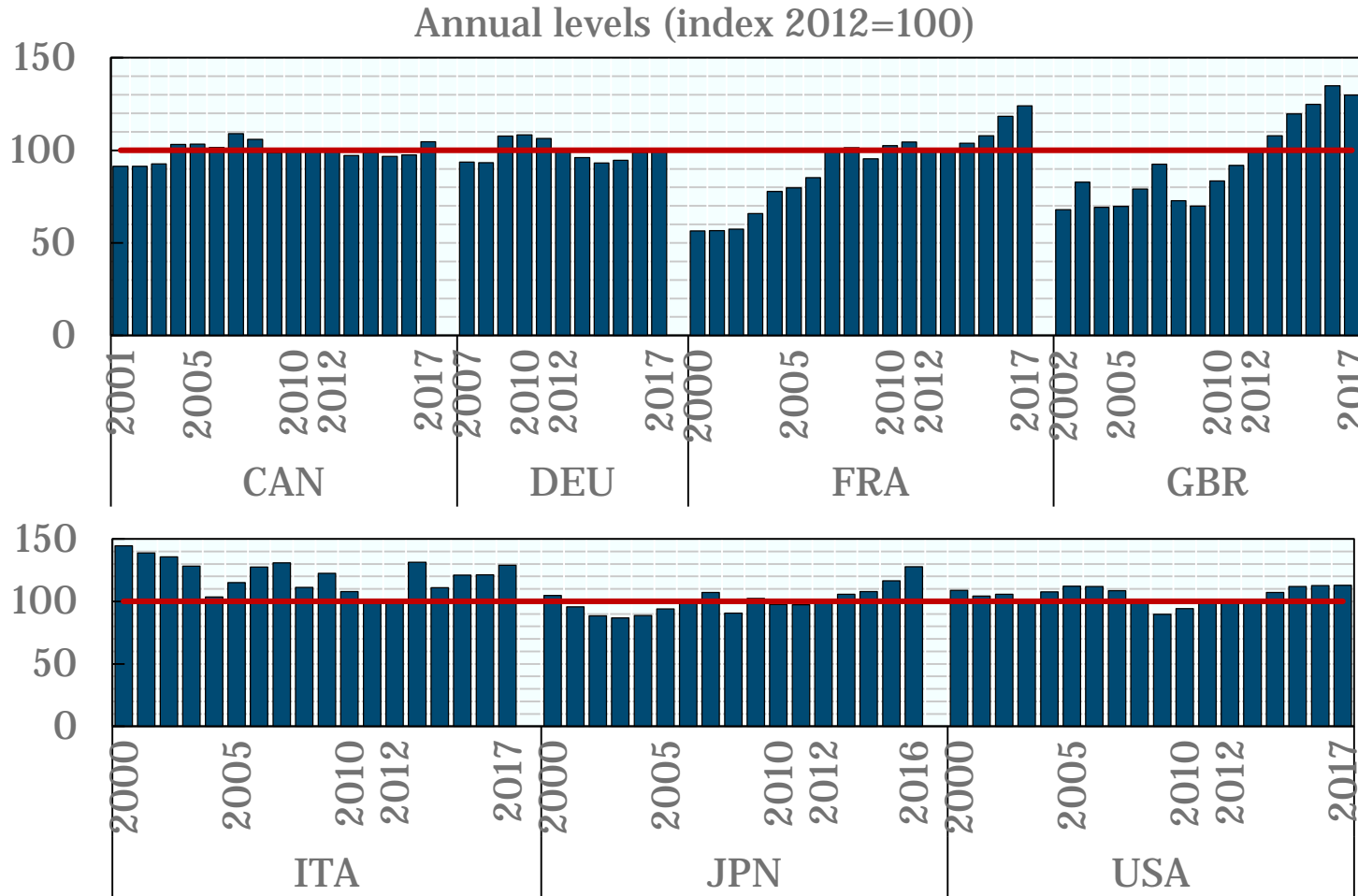


RECENT TRENDS:
SMES ARE DRIVING JOB GROWTH
BUT MOST NEW JOBS ARE CREATED
IN LOW-PRODUCTIVE ACTIVITIES



The SME engine has begun to pick up again

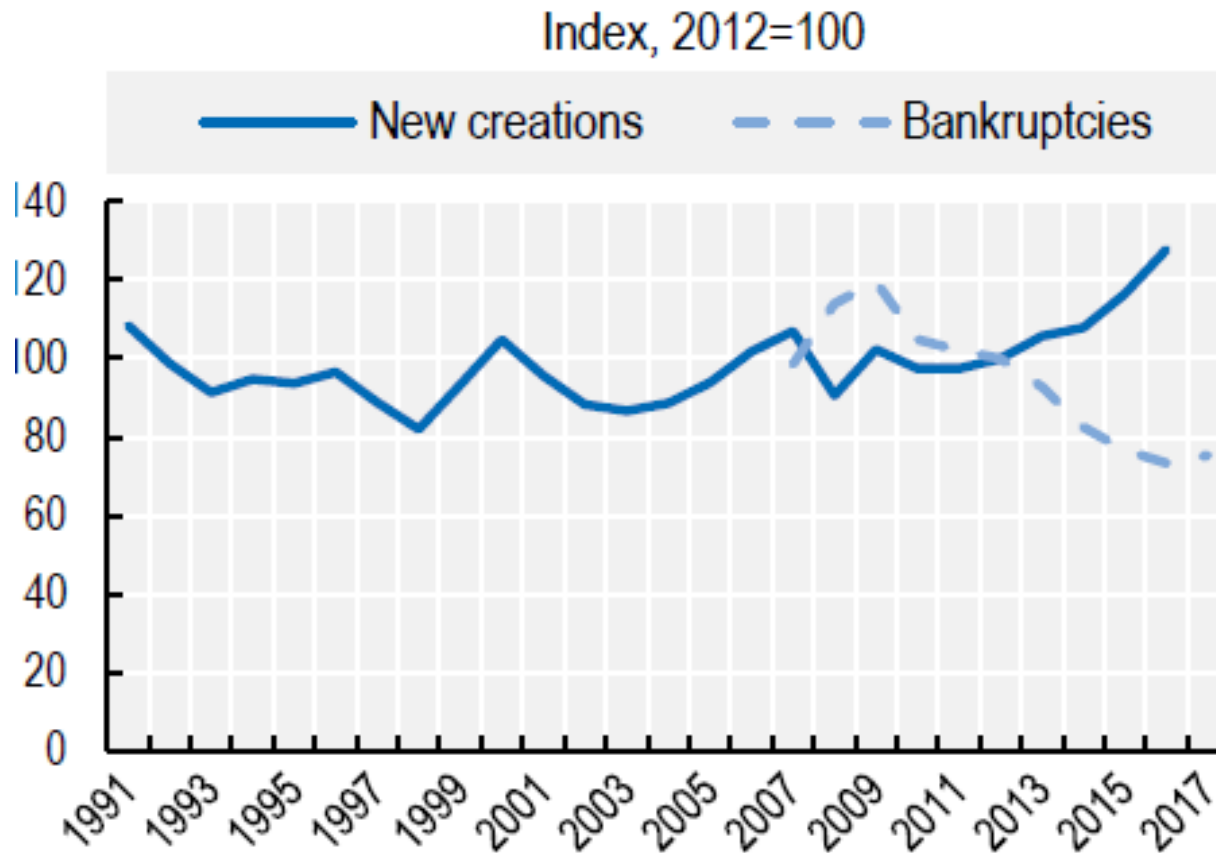
New firm creations are back to pre-crisis levels in many countries





... and bankruptcies decreased

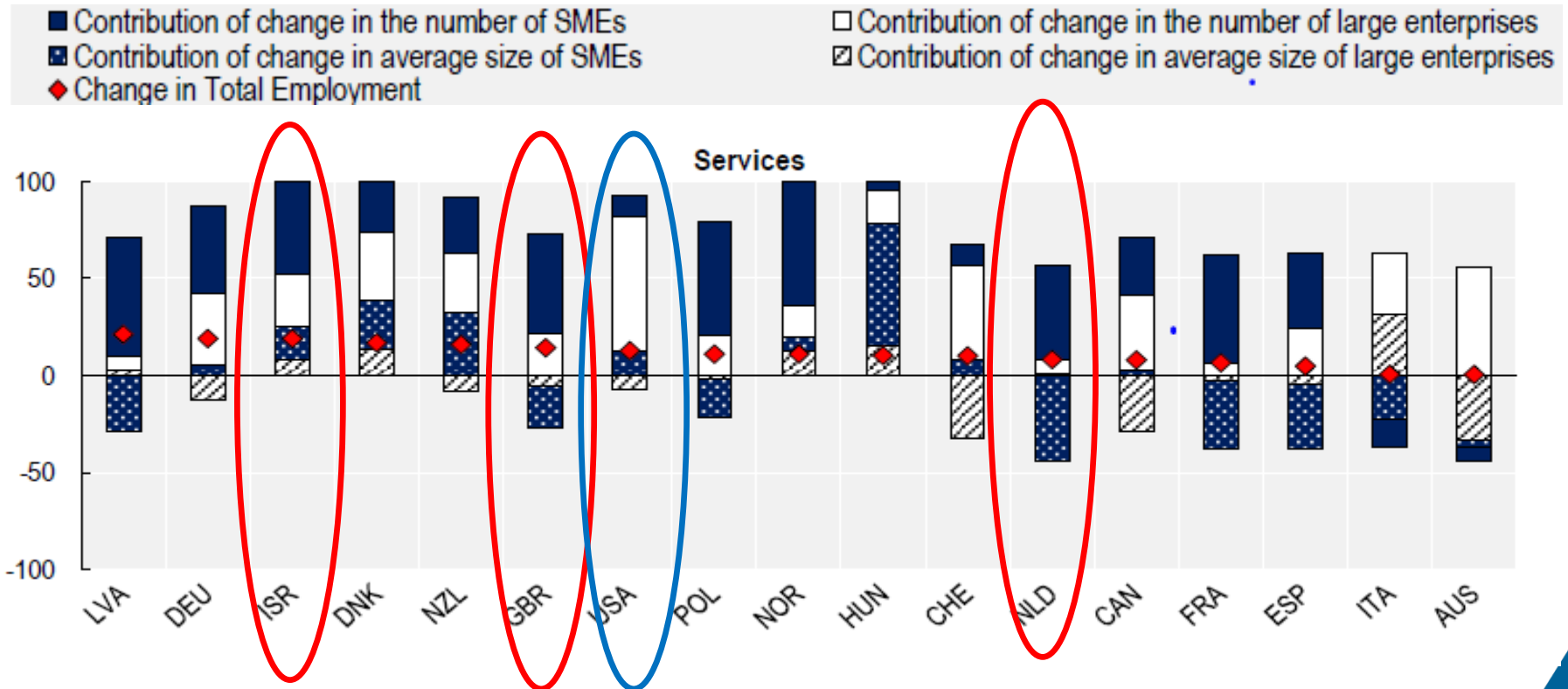
Japan: New enterprise creations and bankruptcies, 1991-2017





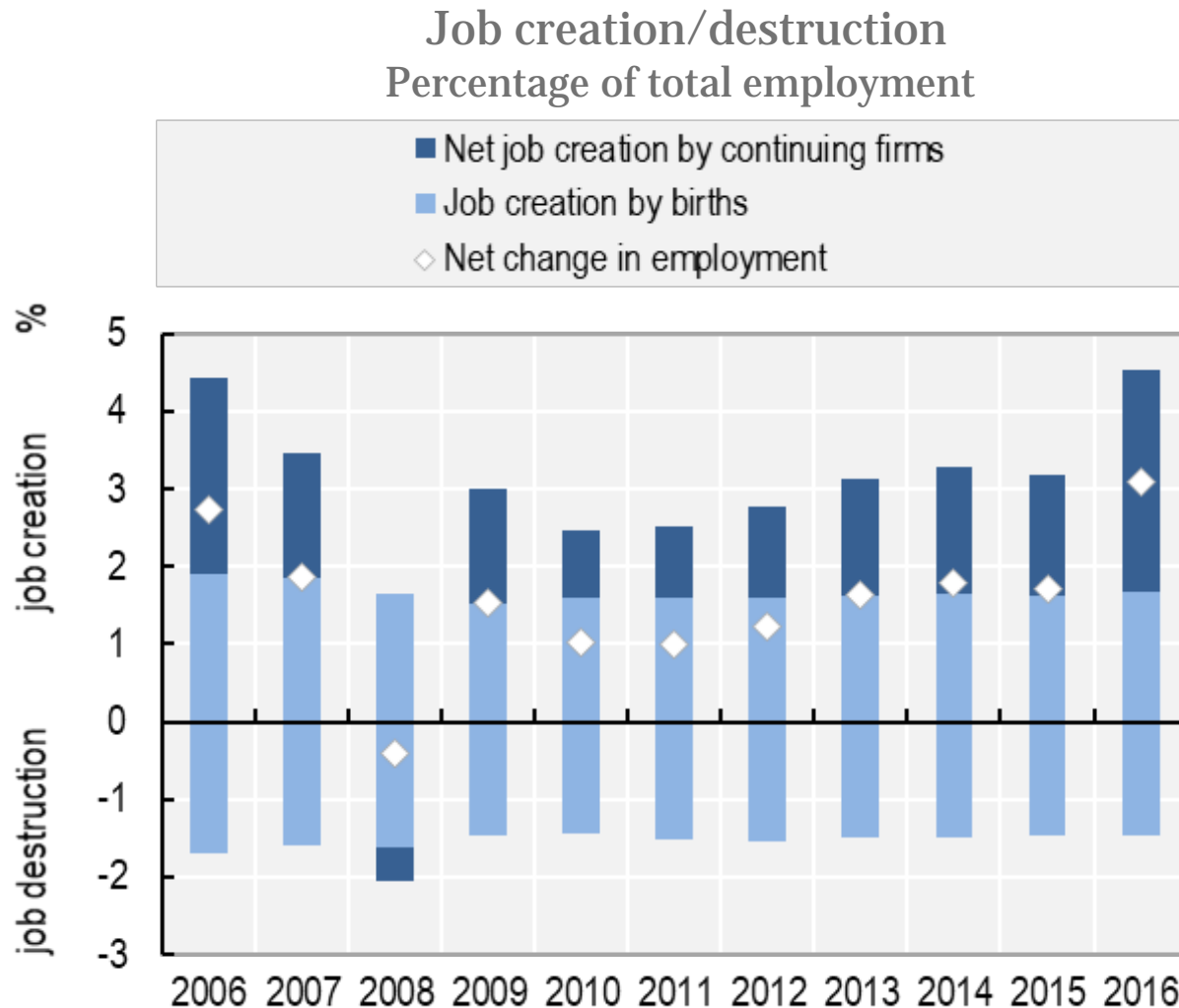
New firms are driving job creation in most OECD countries

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





In Japan, established SMEs have provided a relatively higher contribution

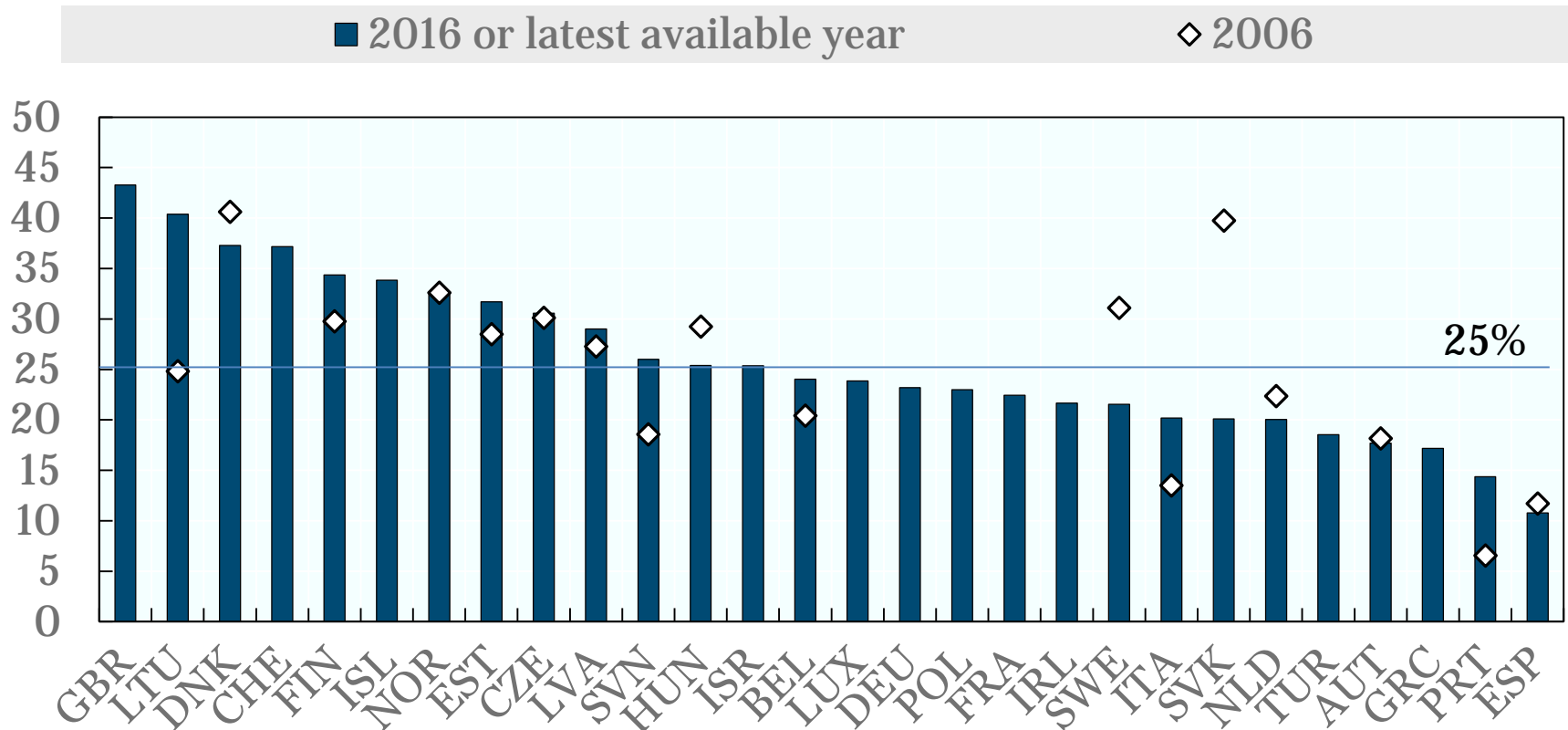


Source: Source: Ministry of Health, Labour and Welfare of Japan, "Employment Insurance Business Annual Report"



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

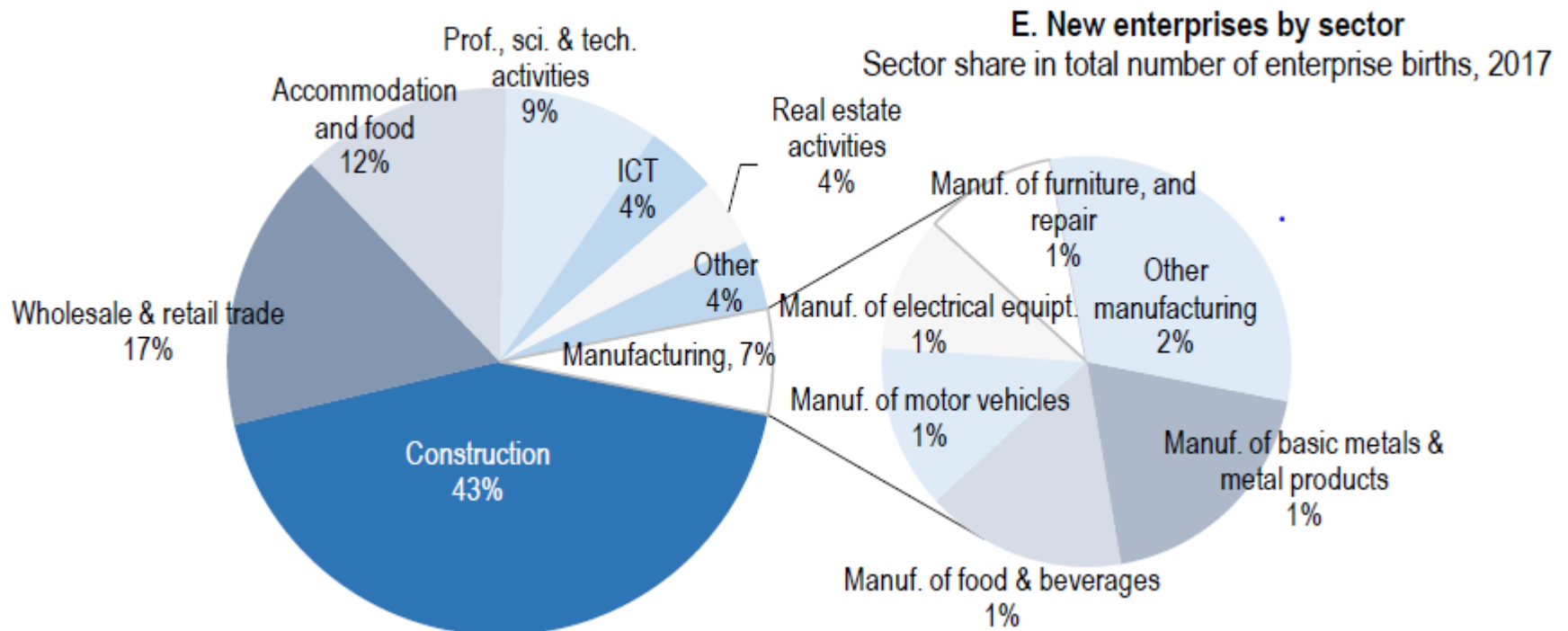
Jobs created by births in sectors with above-median productivity, % total jobs created by enterprise births





... particularly in low-productive service activities

Japan





... 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



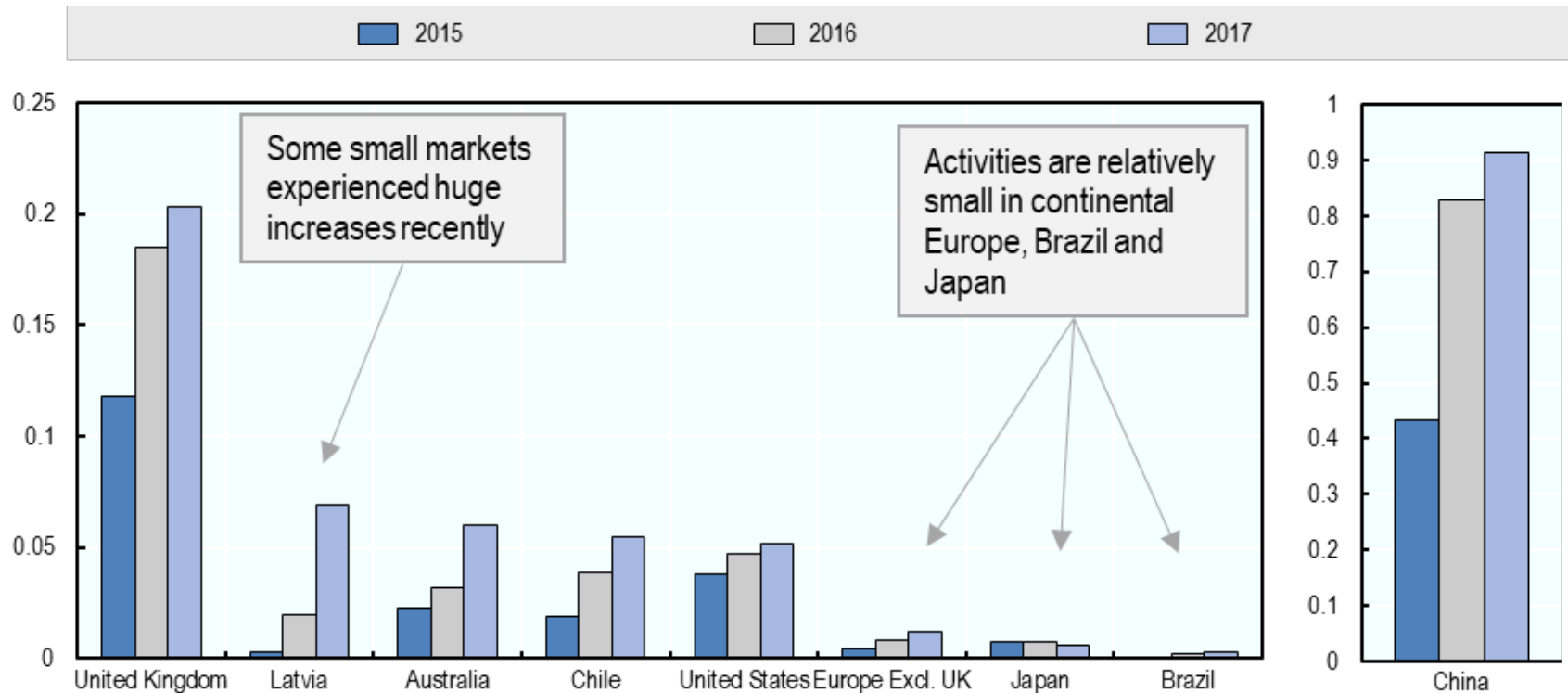
Digitalisation opens up new opportunities for SMEs and entrepreneurs to innovate and scale up

- **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





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

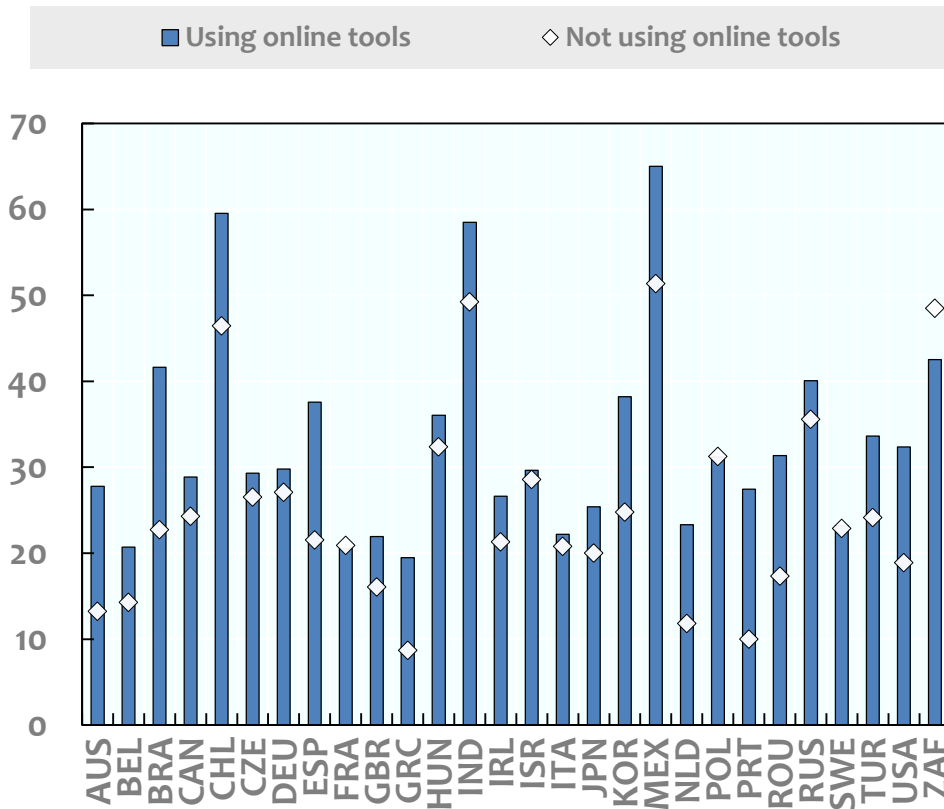
- UK Bank Referral Scheme
- Hong Kong Monetary Authority eTrade Connect Platform



Digitalisation can support internationalisation, with benefits for SMEs

Firms trading internationally

% of all firms, July 2017 – April 2018



Source: OECD SME& Entrepreneurship Outlook 2019

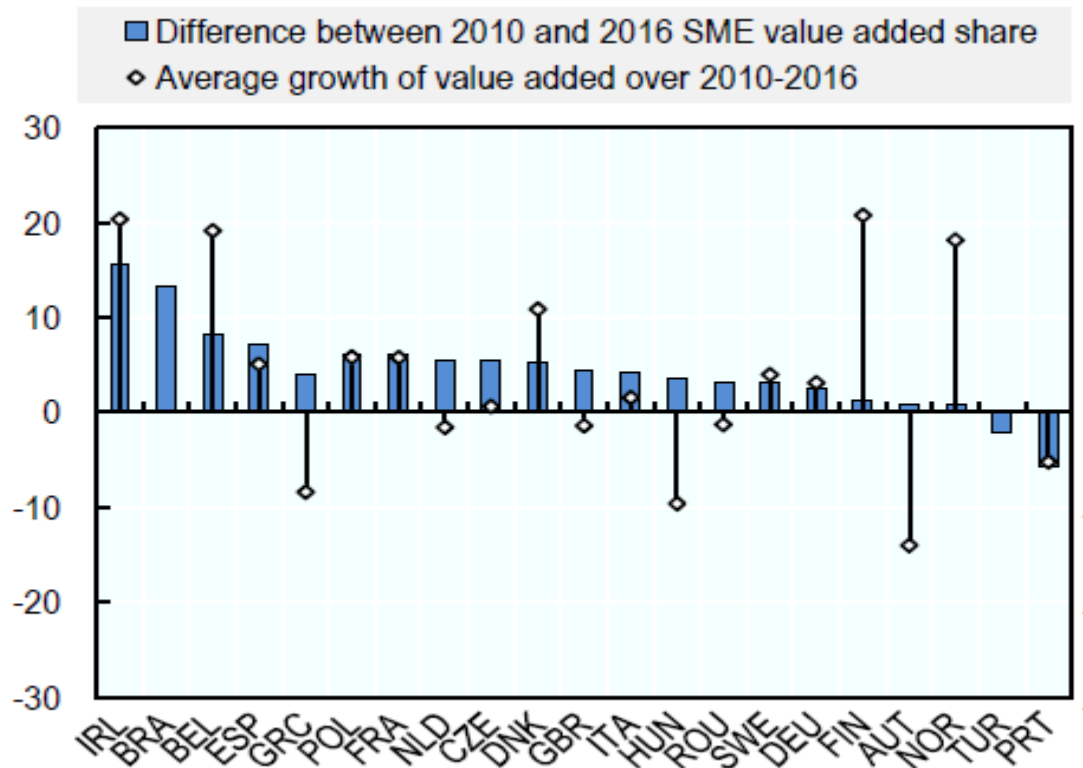
- SMEs are more active in **indirect exports** (as suppliers to direct exporters) than direct exports
- Achieving scale without mass
- Operating local, selling global (digital platforms)
- Integration into **GVCs**
 - Reducing input and trade **costs**
 - Niche markets and **specialisation**
 - Accessing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



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

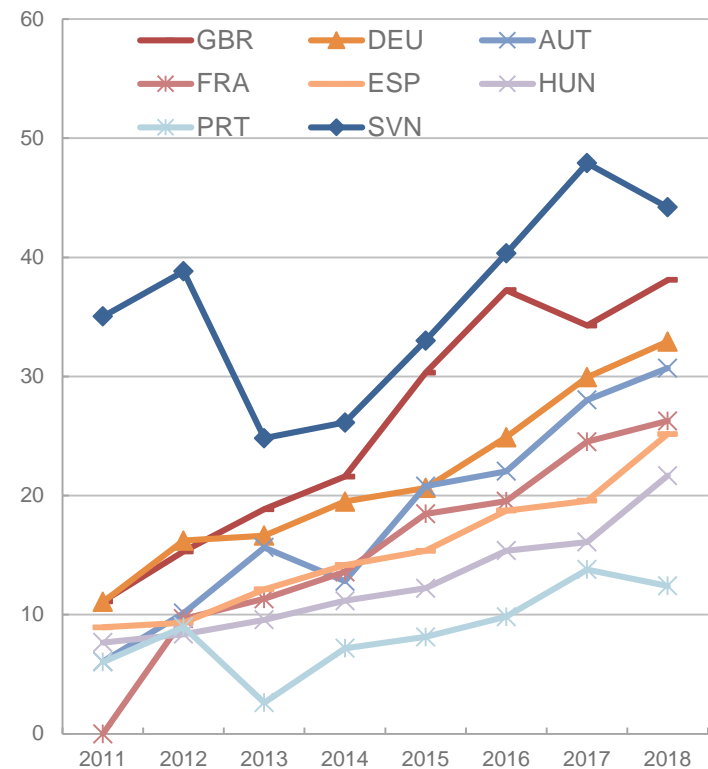
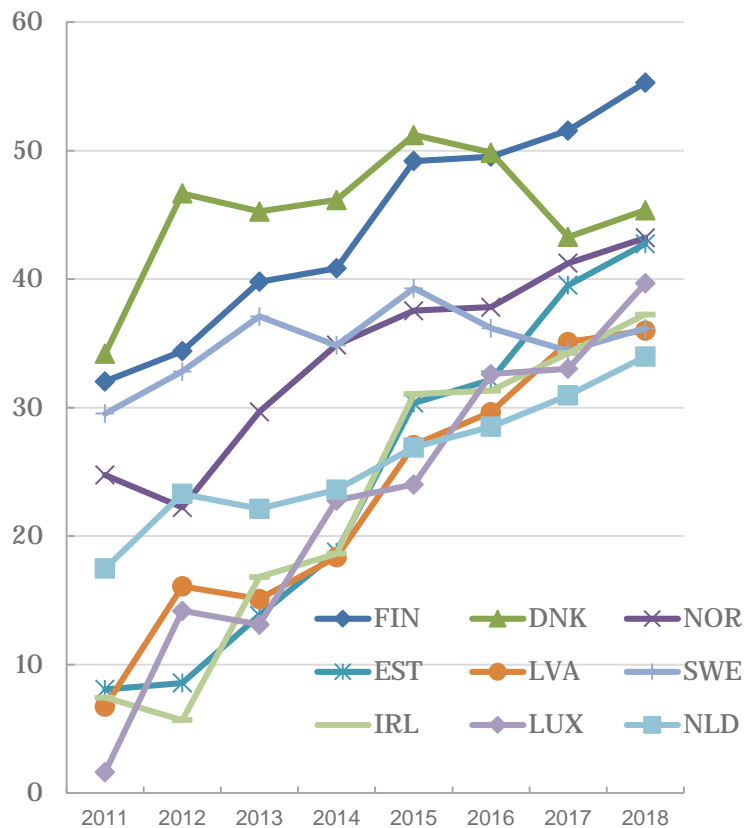
Adoption rates (%), OECD average, 2018

	Small firms	Large firms
Website	73%	94%
Social media	48%	71%
Enterprise Resource Planning	27%	76%
E-commerce	19%	45%
Cloud computing	28%	57%
Data analytics	10%	33%



Divides in high-speed broadband connectivity are widening

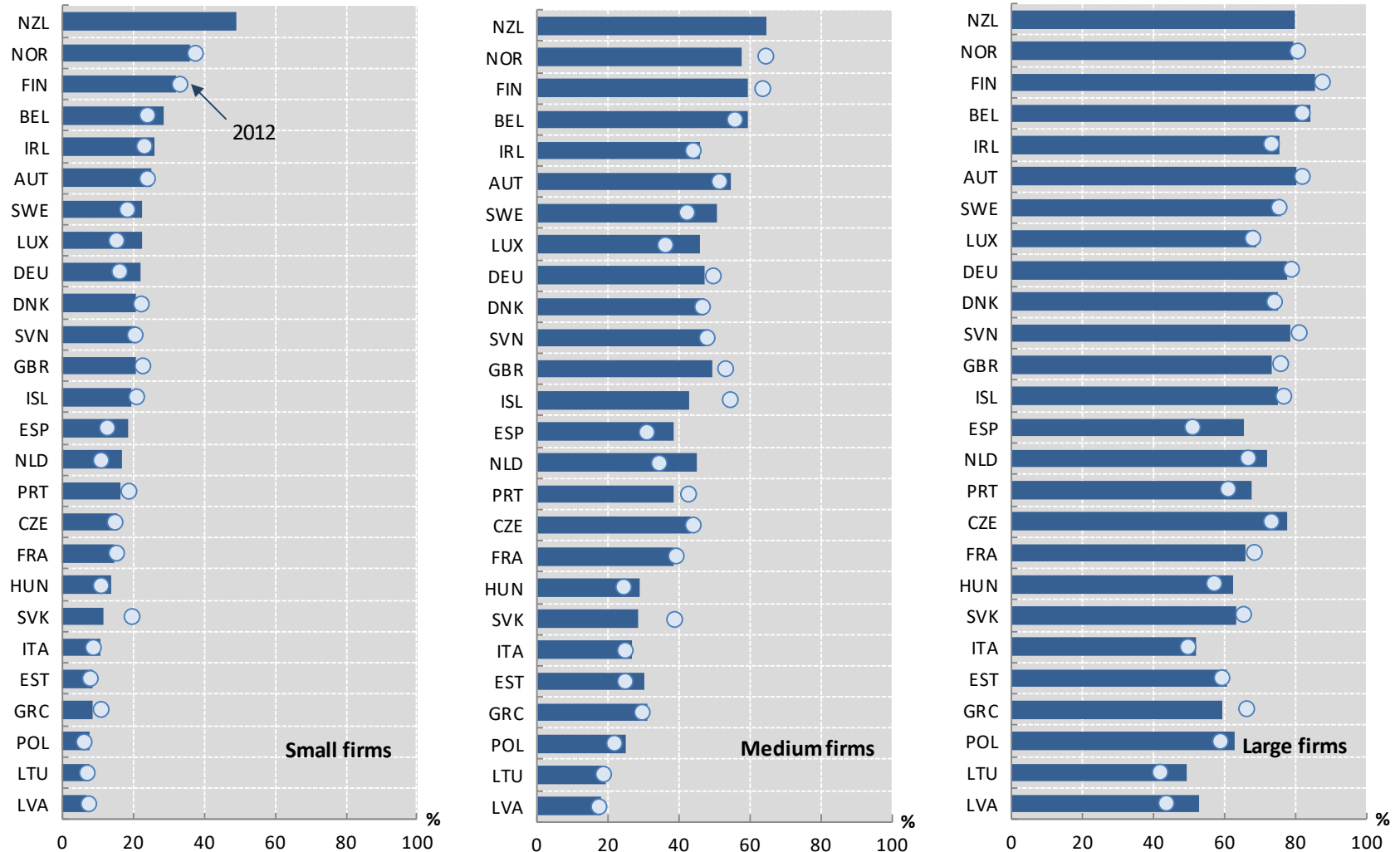
Difference in penetration rates between small and large firms, %, 2011-18





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.



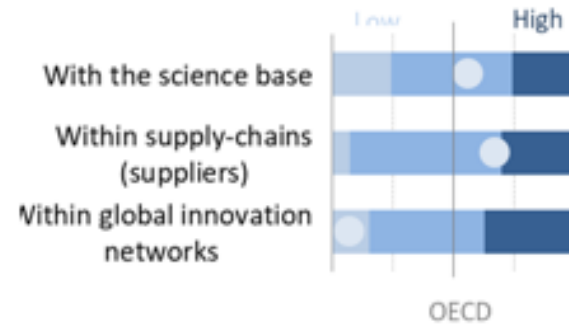
.. and investment in complementary knowledge-based assets

Bottom 5 ■ Japan ● Top 5

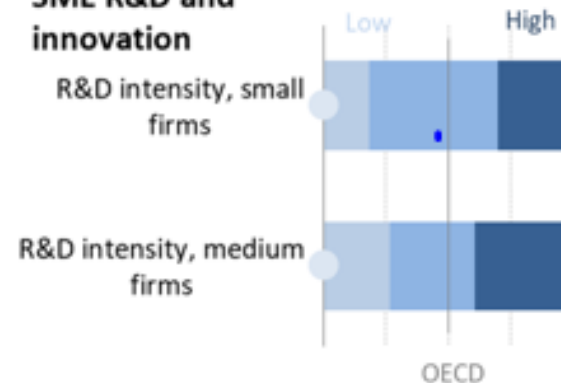
Organisation and processes



SME collaboration networks



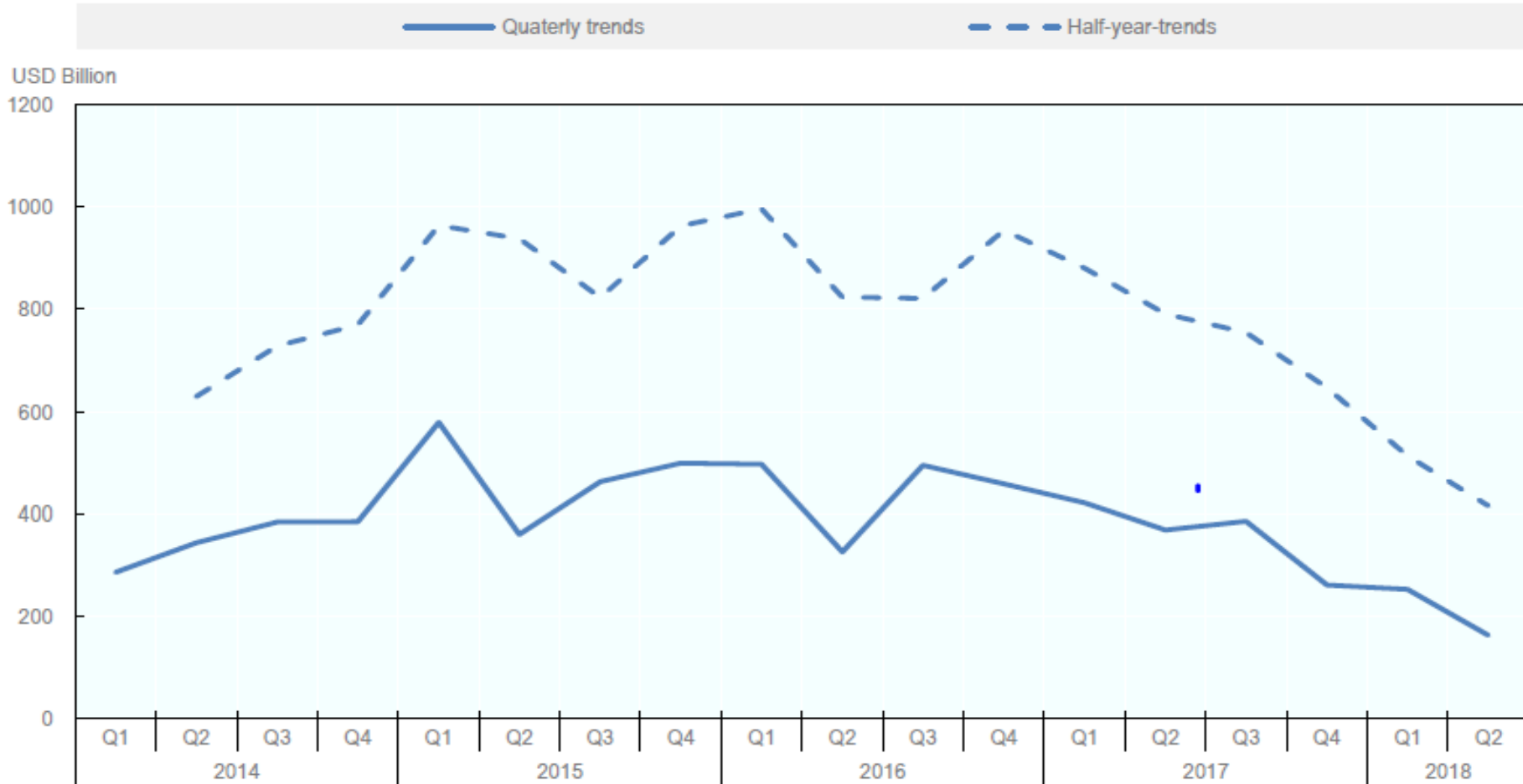
SME R&D and innovation





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

Global FDI flows, USD billion, Q1 2014-Q2 2018





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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