

OECD Observer Roundtable on small and medium-sized enterprises

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Some 99% of firms in the OECD are small and medium-sized enterprises (SMEs) and they generate about 70% of all jobs. But in order to stay vital and competitive in today's global economy, SMEs need support. We ask our panel of experts for their views.

Why do SMEs matter for productivity and inclusive growth, and what new policies are needed for their development?

OECD Observer Roundtable on small and medium-sized enterprises 2 (Bieńkowska)



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Elzbieta Bieńkowska, European Commissioner for Internal Market, Industry, Entrepreneurship and SMEs

Thriving SMEs are key for inclusive growth

Elzbieta Bieńkowska, European Commissioner for Internal Market, Industry, Entrepreneurship and SMEs

A thriving SME sector is indispensable for Europe's future growth. SMEs are the most important source for employment. In the EU, some two-thirds of all private sector jobs are concentrated in firms with fewer than 250 employees. Micro-firms

with fewer than 10 employees account for almost 30% of private sector employment in the EU. In the last years there has been an impressive increase in productivity among SMEs in the EU, going up by 10.3%, with that of medium-sized SMEs close to that of large firms (16.1% compared to 17.1%).

SMEs don't just contribute to jobs: in most EU countries, many of them play a crucial role in providing young people with vocational training through apprenticeship schemes.

However, Europe could do even more: there are still too many SME-specific barriers.

The European Commission has therefore launched several initiatives to tackle these. The 2016 Start-up and Scale-up initiative, for instance, is a comprehensive package of measures to boost the number of fast-growing innovative SMEs in the EU. It includes measures to create an IT tool providing information on rules and obligations for firms selling across borders, as well as measures to increase their access to finance.

In addition, there is the Small Business Act for Europe (SBA) which celebrates its 10th anniversary this year. The SBA ensures that before the Commission launches any new legislative initiative, the impact on SMEs is fully considered.

The EU's wider work on the Single Market is also helping SMEs. A proposed E-card would especially help SMEs, streamlining administrative procedures and facilitating the expansion of their activities across borders.

The Commission is also taking a strict line on enforcing late payments legislation because of the detrimental effect that disruptions in cash flow can have on SMEs.

Finally, the EU's New Skills Agenda is going to help SMEs and start-ups recruit the right skilled employees they need to innovate and grow, addressing the issue of mismatch between education and training, and the skills needs of firms.

These are just some examples of EU policies which are there to ensure that the EU continues to benefit from a vibrant and expanding SME sector.

Visit: https://ec.europa.eu/growth/smes_en

OECD Observer Roundtable on small and medium-sized enterprises 3 (Özlü)



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Faruk Özlü, Minister of Science, Industry and Technology, Turkey

SMEs for decreased inequalities and increased productivity

Faruk Özlü, Minister of Science, Industry and Technology, Turkey

Many governments grapple with slow productivity growth and rising inequalities in income and opportunity. Constituting more than 95% of all companies and providing 60-70% of employment in OECD member countries, small and medium-sized enterprises (SMEs) play an important role in improving efficiency and diminishing inequalities. In Turkey, SMEs account for more than 99% of all businesses, 73% of employment, 53% of added value, 55% of total investments and 55% of exports.

SMEs are important sources of technological innovation and new product development. With their high turnover and adaptability, SMEs play a vital role in eliminating regional and sectoral imbalances in a country's economy. SMEs also tend to employ low-income workers as they are sometimes the only source of employment in poor regions and rural areas. With self-employment as the only source of income for many poor people, SMEs are particularly important in developing countries where poverty is most severe.

If the productivity gap between SMEs and larger enterprises could be attenuated in developing countries, there may be substantial opportunities for inclusive economic growth. Increased SME efficiency contributes to GDP growth and it also increases wages in the low-wage segment of economies.

Promoting SME contribution to inclusive growth, productivity growth and reduced inequalities requires technological advances and innovation. In Turkey, we support R&D, innovation and global outreach for SMEs and entrepreneurs. Through support programmes, our main goal is to promote innovation activities in priority technological fields and to support technological product investments which help SMEs create high value-added goods and services. Additionally, our credit interest support programmes help SMEs access financing. This support is greater in less developed regions with priority given to women and disabled entrepreneurs to improve income distribution. And lastly, we aim to strengthen our entrepreneurial ecosystem with entrepreneurship training.

Visit <https://www.sanayi.gov.tr/>

OECD Observer Roundtable on small and medium-sized enterprises 4 (Feingold)



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Cathy Feingold, Director, International Department, AFL-CIO

The success of SMEs lies in quality jobs

Cathy Feingold, Director, International Department, AFL-CIO

Small and medium-sized enterprises (SME) that prioritise long-term investments and drive productivity will contribute to inclusive and green growth. Given rapid technological changes, we need new policies to ensure that the gains from increased productivity in SMEs will be shared more equitably among workers and their families. The diverse nature of SMEs means that strategies deployed to support them must be tailored to their specific sectors. We need policy and regulatory frameworks that recognise the diversity of SME models and organisational structures, the varying degrees of their integration into global value chains (GVCs) and their different levels of financing and digital adaptation.

Best practices confirm that businesses that strive to deliver quality production and services generate quality employment. They also tend to be more competitive and innovative. Yet, most SMEs are lagging behind, and in emerging and developing economies, they are still often part of the informal economy.

Why is there such poor access to SME employee training and firm financing? Why are sector councils and tripartite insurance programmes for restructuring SMEs ineffective? Why are so many jobs in small and medium-sized firms neither productive nor decent? The answer to many of these questions lies in the lack of bargaining power SMEs have with big enterprises, who are often their contractors in value chains. With limited bargaining power, workers cannot share in any of the gains from productivity. The pressure on business margins for SMEs is enormous, pushing them to lower labour costs. In the Multinational Enterprise (MNE) Guidelines and the upcoming OECD due diligence standard, there are instruments to ensure responsible business conduct and raise labour standards for all firms, no matter the size.

The right policy mix is needed for SMEs to thrive. This includes macro-economic policies that promote aggregate demand; labour market policies that ensure employment protection and decent wage levels; fiscal policies that support investment in public infrastructure (including broadband coverage), universal social protection and workers' training; just transition schemes and an industrial policy that spans sectors and regions.

Social dialogue plays a key role: it leads to a higher degree of formalisation of the SME workforce, the establishment of higher standards in the negotiating of collective agreements on wages and working conditions, better compliance with occupational and health standards, and more employee training. Governments, employer organisations and trade unions all have the responsibility to integrate SMEs better into existing collective frameworks. SMEs and their employees need to have the same access to support services and information. Only by doing that can policy measures on SMEs work effectively.

SMEs are an engine of job creation in most OECD countries. The right balance of policies can ensure that these smaller firms have the leverage to provide decent work, appropriate pay and better working standards.

AFL-CIO is a member of the Trade Union and Advisory Committee to the OECD (TUAC). For more information, please visit <https://aflcio.org/> and <https://tuac.org/>

OECD Observer Roundtable on small and medium-sized enterprises 5 (King)



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Jackie King, Chief Operating Officer, Canadian Chamber of Commerce

Connect SMEs to advanced technology and international trade

Jackie King, Chief Operating Officer, Canadian Chamber of Commerce

John Oliver, host of US cable show Last Week Tonight, has famously ridiculed politicians for their carbon copy use of the phrase, "Small business is the

backbone of our economy.” He has also remarked that it is one of the few things all politicians agree on.

The reason they do is because it’s true.

According to the OECD, 99.7% of firms in the non-financial business sector are small or medium-sized enterprises (SMEs). Some 60% percent of employment in OECD countries is generated by SMEs. Small businesses are at the heart of communities across OECD countries.

However, we know smaller firms face significant challenges. While many of the cyclical issues that weighed on small business after the financial crisis have abated, such as access to credit or weak domestic demand, longer-term structural issues remain.

That is why we must seize the opportunity presented by the OECD Ministerial Conference to push the policy agenda further. There are two areas in particular to prioritise.

The first is boosting SME participation in international trade by working harder to integrate smaller firms into global value chains (GVCs). Not all SMEs can, or want to be, integrated into GVCs. But for those with the potential, and the ambition, governments can do more. This means a bigger voice for SMEs in the development of trade agreements. It also means programmes to support capacity building in smaller firms. It also means we should get behind Business 20’s (B20) call for a “G20 Business Travel Card” to allow fast-track clearance across borders.

The second is supporting SMEs by helping them integrate advanced technologies to improve their efficiency and value propositions, and expand their operations. The first thing to do here is connectivity. We must strengthen digital infrastructure in urban and (especially) rural areas. We need new ways to finance this too. We also need to support international multi-stakeholder initiatives on the e-commerce Electronic World Trade Platform (eWTP) and the SME Market Link, again to spread awareness about the benefits of advanced technologies for smaller firms.

In both of these challenges, we look to governments to spur the innovation and collaboration SMEs need to flourish.

The Canadian Chamber of Commerce is a member of the Business and Industry Advisory Committee (BIAC) to the OECD. For more information please visit www.chamber.ca/ and <http://biac.org/>

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Elisa Giuliani, Professor at the Department of Economics & Management of the University of Pisa

Do business linkages boost SME productivity?

Elisa Giuliani, Professor at the Department of Economics & Management of the University of Pisa

Promoting connections, fixing coordination failures, and generating collaborative ties between small and medium-sized enterprises (SMEs) and large multinational enterprises (MNEs) has been the mantra of policymakers and practitioners over the past few decades. Governments and donors have focused their policies on connecting SMEs with MNEs, as well as engaging in more local networks in the hopes of generating more “Silicon Valleys” around the globe. One expectation is that these linkages will make these smaller firms more efficient and better able to cope with international competitive pressures. A wealth of economic and sociological theories supports this thinking.

What the evidence shows is that linkages between multinational corporations and small and medium-sized businesses yield variable productivity results. Smaller firms often tend to be crowded out in the scramble for financing and support by stronger foreign investors, and when they are not, they have difficulties in taking advantage of the supposedly superior knowledge and skills of multinational enterprises. Where MNEs seem to make a difference, however, is within industrial clusters. These local networks create more openings for SMEs to take advantage of MNEs, as local connections lower barriers and enhance SMEs’ absorptive capacity. Not surprisingly, studies that look at the impacts of cluster policies reveal a strong link between local networks and heightened SME productivity. The message seems clear: to catch a big fish, you need to have a good local net. Clusters aren’t silver bullets but the leg up they appear to give smaller firms is good news. Clusters also fit neatly into a bigger, overall narrative: with the world on the move, hyper-globalisation, re-shoring, and industry 4.0, urgent socio-environmental sustainability standards are demanding that firms and

governments act locally rather than waiting for distant actors to fix their problems.

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