

Launch event

Small, Medium, Strong. Trends in SME performance and business conditions

15 May 2017

Talking Points on “Benchmarking SME business conditions”

The SME policy space is complex...

- **Identifying policy approaches that enhance SME contributions to inclusive growth is a priority** across OECD governments, emerging economies and developing countries alike. It is also the object of increasing attention by international fora, such as the G20, and large number of organisations and communities bringing together the private sector.
- **However, the policy space that matters for SMEs is rather complex.** It comprises framework conditions, broad policies that impact SMEs, and specific targeted policies.

... with SMEs being especially affected by the broader business environment

- SMEs are especially affected by business environment conditions and structural policies, typically more than larger firms. In fact, due to internal constraints, **SMEs are disproportionately affected by the barriers and inefficiencies in the business environment and market failures in the economy.** Their contributions depend to a great degree on conducive framework conditions for investment and innovation, as well as on public investments in areas such as education and training, innovation and infrastructure.
- **The new OECD publication brings together for the first time the vast array of OECD data pertaining to business environment conditions for SMEs,** developed across diverse OECD Committees. Data, indicators and policy information are gathered into a coherent framework, which brings together **key elements of importance in the business environment for SMEs,**

including the institutional and regulatory framework, access to markets, access to resources, and entrepreneurial culture.

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- By benchmarking framework conditions and trends across these areas, this publication reveals a **large diversity of opportunities and challenges for SMEs across OECD countries.**

Regulatory conditions are key for entrepreneurship and SME development

- An effective and transparent regulatory environment is key to all businesses, but **conditions for regulatory compliance are especially important for SMEs.** Since SMEs are typically less efficient than large firms in screening the regulatory environment and dealing with the relevant norms, unnecessary regulatory burdens affect them disproportionately. Furthermore, for SMEs that participate in global markets and GVCs, regulatory divergence across countries can impose an additional layer of difficulty.

Regulatory barriers to entrepreneurship have been declining over time in most countries...

- Across OECD countries, regulatory barriers to entrepreneurship have been declining over time. In particular, **reforms have aimed to reduce the administrative burdens on start-ups, lower legal barriers to entry, and reduce the costs for regulatory compliance in different areas** (e.g. environment, labour legislation, product standards and certification). It is however to be noticed that most of the progress occurred over 1998-2008, whereas conditions remained relatively stable thereafter.

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...but the complexity of regulatory procedures remains a major obstacle to entrepreneurial activity

- **In most countries, the complexity of regulatory procedures remains the main obstacle to entrepreneurial activity. This is largely related to tangled license and permit systems,** whereas important progress has been made in the communication and simplification of rules and procedures

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- Other significant challenges remain, including the complexity of regulatory and insolvency procedures, the burden of tax compliance, as well as, in some countries, the time and cost for enforcing contracts.

Conditions for accessing international markets have generally improved for SMEs in recent years...

- **The reduction or removal of explicit barriers to trade and investment have facilitated SME access to international markets and participation in GVCs.** For instance, over 2008-13 tariff barriers declined in all OECD countries, except Korea. SME access to international markets has also been facilitated by developments in ICT infrastructure and logistics services. (On the other hand, investments in transport infrastructure and maintenance spending have declined in the OECD area).

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... although barriers to services markets remain relatively high

- However, with the exception of a few countries, **barriers to entry and foreign investment remain relatively high in the services sector, most notably in professional services, which are dominated by SMEs.** In addition, other less explicit barriers, such as measures discriminating against foreign suppliers, remain in place in a large number of countries.

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Large cross-country differences in SME access to strategic resources, such as finance, skills, technology and knowledge, persist

- Access to finance, skills, technology and knowledge are essential for business activity in general, and for innovation and expansion in particular.

- **For SMEs, access to financial resources was severely affected by the 2008-09 global financial crisis.** Conditions have improved in recent years in most countries, although the recovery has been uneven. For example, **sizeable differences remain in the cost and conditions for accessing credit, as well as in the development of financial instruments alternative to straight debt,** including venture and growth capital.

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- Some variance across OECD countries is also observed in the levels of educational attainment and in the **development of work-related skills, which have implications on SME productivity and competitiveness.**
- For example, **notable cross-country differences are observed in firms' investment in training and lifelong learning.** The share of total employed persons receiving firm-specific training ranges from 34% in Italy to 77% in Finland.

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- **Cross-country differences are sizeable also when considering SME linkages with key players in the innovation systems.** The share of innovative SMEs that engage in co-operation with universities and research institutions ranges from about 25% in Slovenia to less than 3% in Chile.

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Recognition of entrepreneurial opportunities varies broadly across OECD countries

- Evidence shows that **perceptions and attitudes towards entrepreneurship differ largely in the OECD area.** In 2014, about 70% of adults in Sweden saw good opportunities to start a business, against less than 20% in Japan, Korea and Slovenia.

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- In particular, perceptions about capability (i.e. skills and knowledge) to start a business appear to be relatively constant over time, suggesting a relation with underlying structural elements, such as education and training systems.

Going forward

- This report represents an important building block in a **long-term agenda to shed light on the links between SME performance, business environment conditions and policies.**
- **A cross-cutting approach is needed** to better understand the combined effects of structural reforms on the SME business environment, as well as the role and impact of policies targeted to SMEs.
- Such an effort should consider the **potential synergies and trade-offs** across diverse policy areas; recognise the **heterogeneity of the SME population**; and acknowledge the **multidimensional contributions** SMEs make to the economy and society.
- The OECD will continue to advance this agenda. It will do so by strengthening and expanding this new tool, leveraging its **unique expertise in developing, collecting and understanding business statistics** across Members and non-Members, and building on the **strong foundation of policy analysis developed across OECD Committees**, in as diverse but interrelated areas such as SME finance, innovation, taxation, regulation, digitalisation, employment, skills, trade, internationalisation and GVCs, and environment, among others.