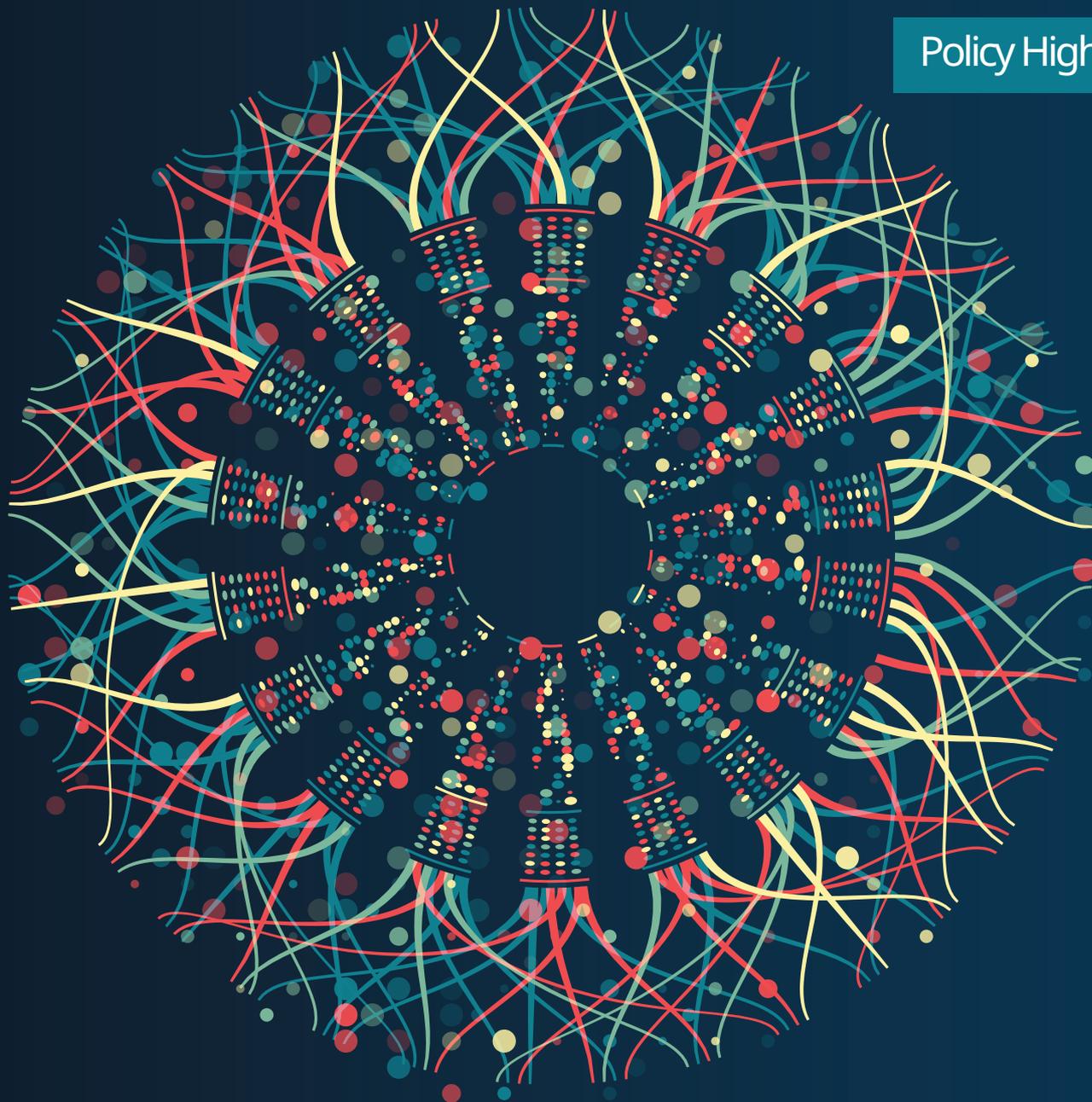


OECD SME and Entrepreneurship Outlook 2023

Policy Highlights



About the OECD

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

About the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE)

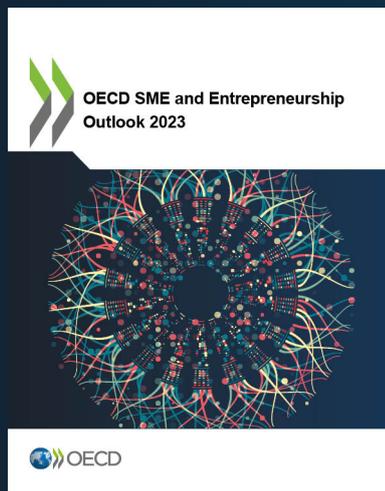
The Centre helps local, regional and national governments unleash the potential of entrepreneurs and small and medium-sized enterprises, promote inclusive and sustainable regions and cities, boost local job creation and implement sound tourism policies.

About the Statistics and Data Directorate (SDD)

The Directorate provides statistics, frameworks and methodologies on national accounts, entrepreneurship, productivity, international trade, prices and labour markets, among others, for evidence-based decision making in current and emerging policy areas such as globalisation and digitalisation.

The full report is accessible at

OECD SME and Entrepreneurship Outlook 2023



OECD Publishing, Paris,

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Policy highlights

The global economy is turning a corner and has begun to recover from the series of recent shocks, including the COVID-19 crisis, Russia's war of aggression against Ukraine, and the largest energy crisis since the 1970s. Nevertheless, the outlook remains uncertain, with economies facing a long unwinding road to attain strong and sustainable growth and deliver on the longer-term policy objectives of an inclusive, green and digital transition.

Small and medium-sized enterprises (SMEs) and entrepreneurs will be critical to driving a resilient, inclusive and sustainable recovery. They have been on the front-line of, and disproportionately affected by, recent shocks and many governments provided significant support to shield them from the short-term impacts. Representing 99% of firms, and around 60% of business sector value-added, SMEs will also need to be on the front-line of driving the green and digital transitions. Harnessing their full potential to contribute to major economic, environmental, and societal transitions, and to strengthen economic resilience, requires the right enabling framework conditions and action on a number of fronts.

The *2023 SME and Entrepreneurship Outlook* is a bi-annual OECD flagship publication, providing the latest evidence and analysis on SME and entrepreneurship trends and performance, changing business conditions, and policy implications. This edition takes stock of the impacts of recent crises on SME and entrepreneurship performance and considers the important role that networks can play to address ongoing and future challenges, in particular with respect to disruptions and reconfigurations in global production and supply-chain networks, the role of women led-businesses in international trade, knowledge and innovation networks, and skills ecosystems.

SMEs and entrepreneurs continue to face difficult economic conditions

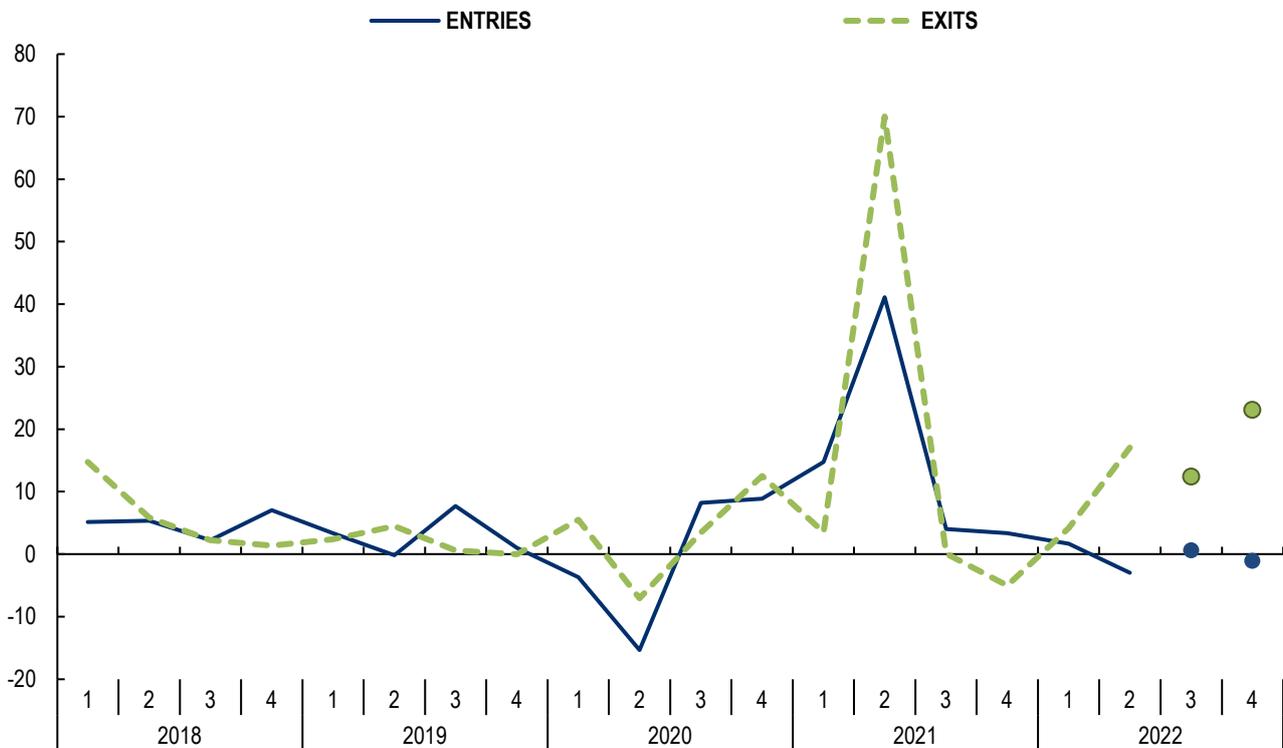
While SMEs in most countries have little direct exposure to Russia and Ukraine, they have been affected by the associated increase in geo-political tensions, high inflation, tighter monetary and fiscal policy, and supply-chain disruptions. Since the start of the war, firm entries have slowed, compared to the relatively high growth rates just before the war, as economies began to rebound from the effects of the pandemic. At the same time, firm exits have risen substantially, reflecting, in part, the withdrawal of significant COVID-19 related support as well as the ensuing energy crisis and the withdrawal of fiscal support and tightened monetary conditions (see Figure below). Meanwhile, trends in bankruptcies have been accelerating in several European countries (OECD, 2023[1]), though they remain below pre-COVID levels.

Tight labour markets have also made it more difficult for small firms to access skilled labour.

After years of favourable financial conditions, financial markets around the world have also become more volatile, reflecting greater risk aversion and uncertainty. This shift has impacted the accessibility and cost of debt finance for SMEs, while the rise in energy costs is likely to have exacerbated existing financial needs. At the same time, equity finance showed a significant decline in 2022. Looking ahead, it will therefore be important to ensure that SMEs are not deterred from undertaking crucial investments, such as in digitalisation and greening (OECD, 2023[2]).

» Firm entries and exits since 2018

Year-on-year growth rate, average across countries



Note: Entries: The solid line plots the average of Australia, Belgium, Canada, Denmark, Finland, France, Germany, Hungary, Iceland, Italy, Lithuania, Netherlands, New Zealand, Norway, Portugal, Slovenia, Spain, Sweden, Türkiye, United Kingdom, United States. The dots plot the average of the same countries excluding Finland (in 2022Q4), and the United States (in 2022Q3 and 2022Q4).

Exits: the dotted line plots the average of Belgium, Canada, Finland, Germany, Italy, Netherlands, New Zealand, Portugal, Slovenia, Spain, Türkiye, United Kingdom, United States. The dots plot the same average excluding Finland (in 2022Q4) and the United States (in 2022Q3 and 2022Q4).

Source: OECD Timely Indicators of Entrepreneurship Database.

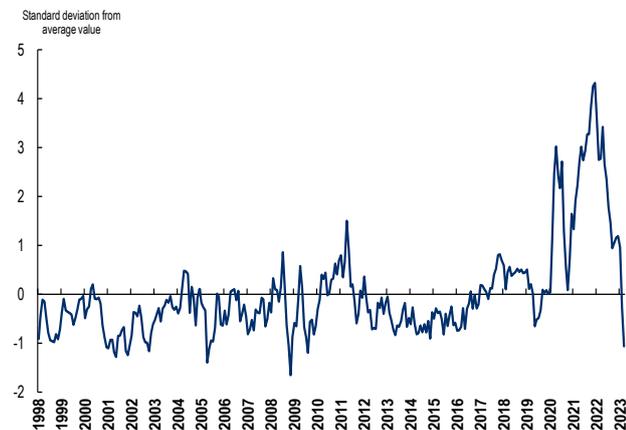
Global supply chain disruptions have abated, but SMEs remain vulnerable to shifting trade patterns

In 2021, delays in receiving supplies and increased shipping costs were the most common supply-chain difficulties reported by SMEs (see Figure below). While disruptions in global value chains (GVC) have abated recently, SMEs continue to face

disproportionate challenges from both long-standing barriers to trade and ongoing structural shifts in the trade environment (Federal Reserve Bank of New York, 2022[3]) (OECD, 2019[4]).

Global supply chain conditions may have returned to normal after massive setback

Global supply chain pressures index (GSCPI), standard deviation from average value, Jan 1998-Feb 2023



Note (left graph): the GSCPI is a composite index based on two sets of data. Global transportation costs are measured by using data on ocean shipping costs (the Baltic Dry Index (BDI), the Harpex index and BLS airfreight cost indices for freight flights between Asia, Europe, and the United States), and supply chain-related components are drawn from Purchase Manager Index (PMI) surveys—“delivery times,” “backlogs,” and “purchased stocks”—for manufacturing firms across seven economies: China, the euro area, Japan, South Korea, Taiwan, the UK, and the US.

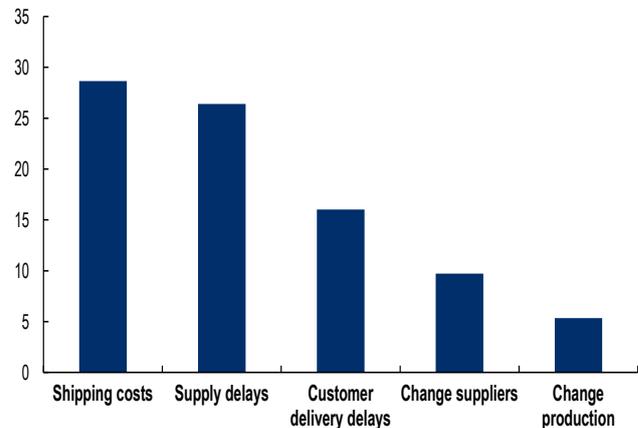
Note (right graph): Shares obtained using the question: “Which of the following, if any, did your business experience in your supply chain in 2021?” The subpopulation of analysis are SMEs—firms below 250 employees—operating in 33 OECD countries (OECD excluding Estonia, Iceland, Luxembourg, Latvia, and Slovenia). The survey is administered to firms with a Facebook page.

Source (left graph): Based on (Federal Reserve Bank of New York, 2022[51]).

Source (right graph): Author’s calculations based on the OECD-Meta-World Bank Future of Business Survey March 2022.

Higher shipping costs and supply delays were the most frequent difficulties reported by SMEs

Percentage of SMEs reporting having experienced disruptions by type of disruption, 2021



The trade environment is marked by an increased focus on strategic products and national self-reliance, along with a growing pressure to enhance sustainability and due diligence across global production systems, without undermining the benefits of open trade (Pla-Barber, Villar and Narula, 2021[5]) (OECD, 2023[6]). This brings many opportunities for SMEs to integrate into shifting value chains, providing a potential source of resilience to better manage interdependencies, and cope with uncertainty and disruptions (McKinnon, 2014[7]) (Brende and Sternfels, 2022[8]). However, it can also create challenges, for

example through the propagation of shocks. Moreover, in a context of rising cybersecurity risks, partnership decisions for doing business increasingly take into account mutual exposure and risk management capacity. This, in turn, may weaken the ability of SMEs to export successfully or to create stronger linkages with multinationals, as they often struggle to protect themselves from cyberattacks or meet the growing reporting requirements on due diligence and ESG (OECD, 2021[9]) (OECD, 2022[10]).

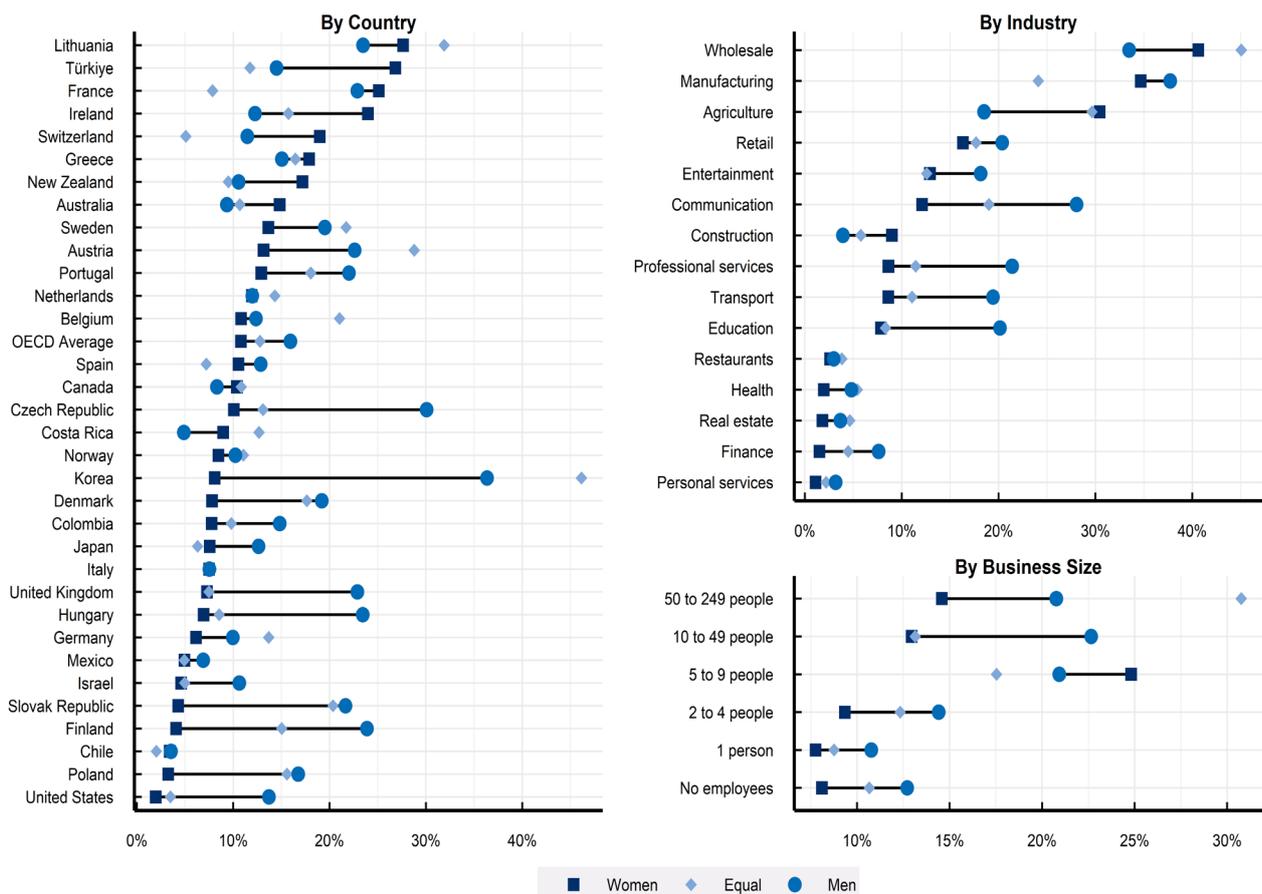
...and challenges remain in making trade more inclusive

In 2022, only 11% of women-led SMEs exported, compared to 19% of men-led firms. This gender bias remains even when accounting for the fact that women-led firms are smaller and more likely to produce services, which are less traded than goods. Easing export procedures and reducing delays at borders, in particular through digital tools, would especially benefit women-led firms.

Governments are working to close gender export gaps via targeted programmes, e.g. for accessing finance, including trade finance, and by prioritising market access in sectors where more women own businesses. Going forward, it will be important to monitor their success, including by developing more gender-differentiated data on engagement in international trade.

Variation in the gender export gap

March 2022



Note: The y-axis displays the share of firms in a given group who indicate they engage in either “just exporting” or “both importing and exporting”. Based on a sample of 10,000 small and medium sized businesses (i.e., with less than 250 employees) with a Facebook page from 34 OECD countries.

Source: Authors’ calculations based on the OECD-World Bank-Meta Future of Business Survey.



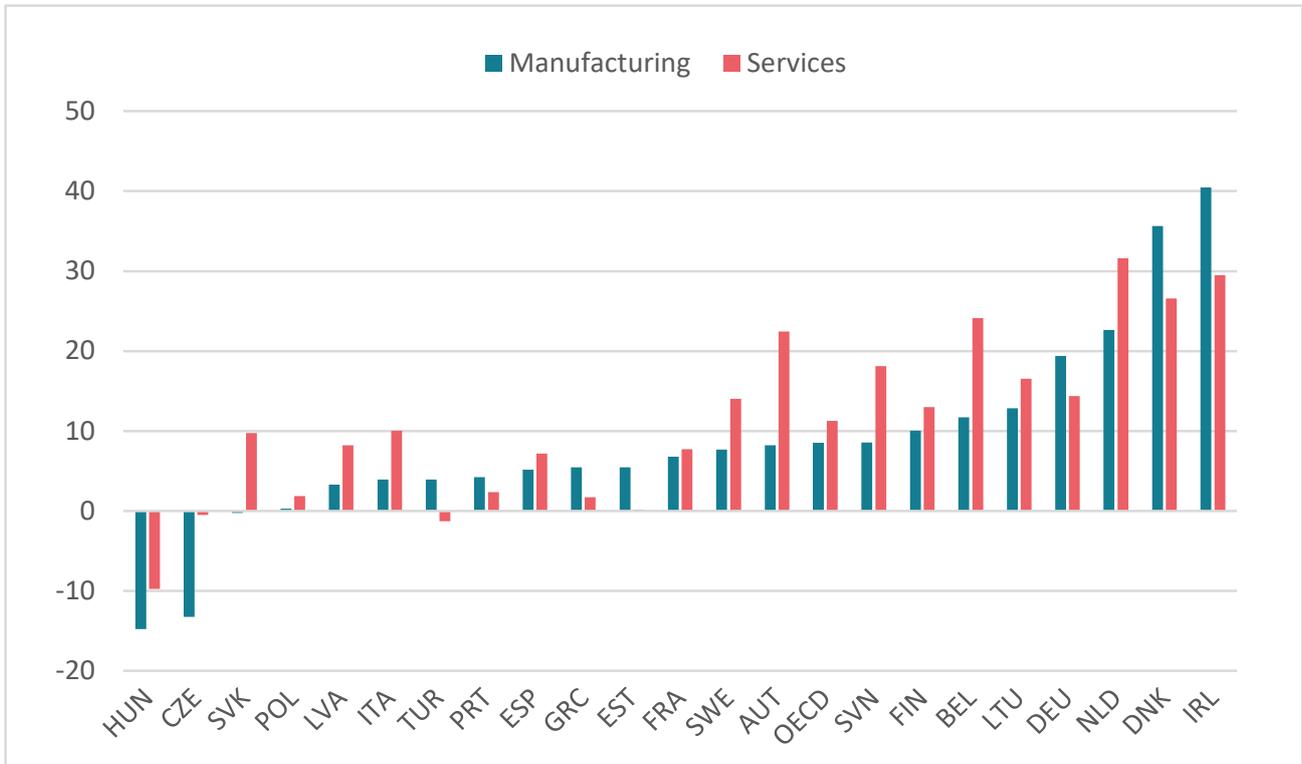
Attracting and retaining skilled staff has emerged as a major constraint for businesses

Access to skills is critical for SMEs to adapt to rapid changes in economies, where business success increasingly hinges on human capital and intangible assets (OECD, 2019[4]). At the same time, the green and digital transitions are changing skills demand for a broad range of jobs across the economy, amplifying the traditional challenges faced by SMEs in accessing and developing talent. SMEs will therefore have to close existing skill gaps, retain trained and skilled staff, as well as upgrade transversal skills, including technical and managerial skills, to capitalise on digitalisation and invest in decarbonisation (Samek, Squicciarini and Cammeraat, 2021, 2023).

The post-pandemic period has led to labour shortages and a heightened competition for skills, with vacancies surging to record highs in many countries. In the United States, for example, more than 11 million job vacancies were posted in July 2022, against a pool of less than 6 million unemployed. Across EU countries and Türkiye, the number of firms reporting production constraints from labour shortages rose significantly above pre-pandemic levels, both in services and manufacturing (see Figure below). In the first half of 2022, over a quarter of firms reported shortages; an increase of 11 and 8.5 percentage points in the service and manufacturing sector, respectively, compared to the pre-crisis period (OECD, 2022). In some countries, heightened competition for labour has also seen resignations increase (OECD, 2022).

» Production constraints from labour shortages have become widespread

Differences in the share of firms reporting labour shortages between the second quarters of 2016-19 and Q2 2022



Source: (OECD, 2022[21]) based on European Commission Business and Consumer Survey.

Governments have been playing their part through support measures that raise awareness on evolving skill needs, reduce training costs for SMEs and promote workplace training, including through tax incentives and subsidies (e.g., vouchers). Tailored policies with a spatial lens are also increasingly being deployed to leverage on local skills ecosystems that can help connect SMEs to key public and private

stakeholders, including research and education organisations. In this context, it will be important to focus on policies that can accompany SMEs in developing a better understanding of the types of skills services that would most suit their needs, as opposed to “blanket support” for specific training that may not be relevant for all firms and all places.

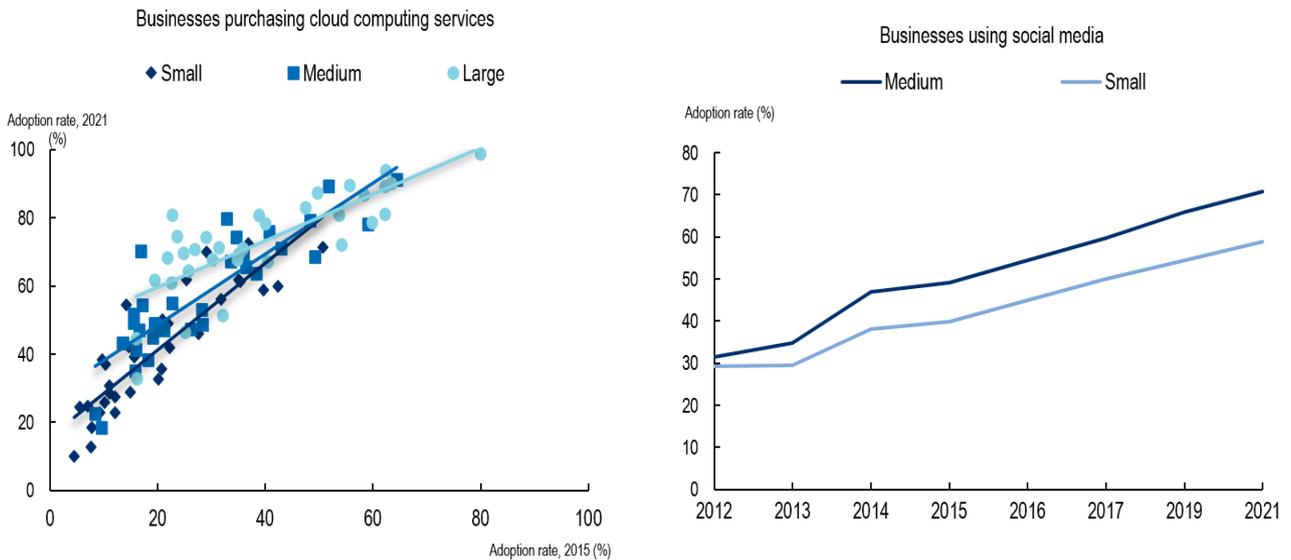
Open innovation and digital technology adoption can support SMEs and entrepreneurs in navigating the twin transition

SMEs have accelerated their uptake of digital tools and participation in networks supporting innovation spillovers, including through an increased use of digital platforms (OECD, 2019[4]) (OECD, 2021[17]). In 2021, the use of social media had become broadly mainstreamed, with an uptake of over 60% of the total business population, and the share of

SMEs using cloud computing services doubled in less than six years, catching up with large firms (see Figure) (OECD, 2023[18]). This acceleration reflects the increasing value of data for business intelligence, with firms moving to the cloud not only to upgrade their technology but also to drive business innovation.

Smaller businesses are catching up in the adoption of platform technologies

Percentage of firms purchasing cloud computing services, by firm class, 2015 and 2021 or nearest year available (left-hand), and percentage of firms using social media, 2012-21 (right hand)



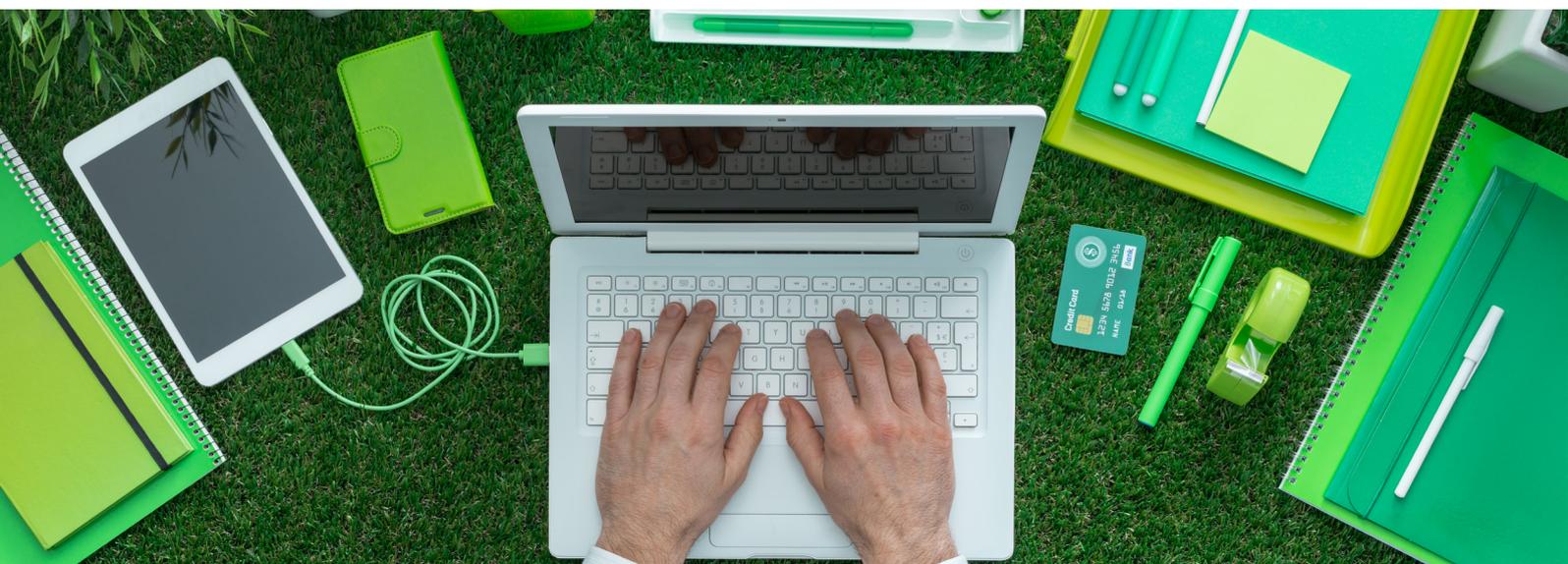
Note: Firms with ten or more employees. Micro firms are not covered in ICT surveys. The trendlines (left-hand chart) mark an acceleration in CC adoption, the higher the slope, the faster the diffusion. There is no data available in 2020 to compute the average percentage of business using social media. Set of countries changes from year to year.
Source: (OECD, 2023[52]), ICT use by Businesses database.

However, many small firms continue to lack the skills needed to fully leverage on the potential of digital technologies. The most prevalent challenges reported by small firms in this regard, and by micro firms in particular are technical skills and knowledge gaps. This is true across all sectors, but is specially acute in manufacturing.

In addition, fewer SMEs have taken steps to improve their environmental performance, as compared to large firms. More efforts are therefore needed to reap the potential of small businesses to drive and benefit from the green transition. This is

important considering that they account for between 37% and 45% of all business greenhouse gas (GHG) emissions in the EU (Marchese, M. and Medus, J. Forthcoming, 2023[21]), but are also important drivers of green innovations.

Accelerating up-take of greening by SMEs requires an integrated approach to mainstream this issue in broader SME and entrepreneurship policy frameworks, and to ensure that climate and environmental policies take the perspective of SMEs and entrepreneurs into account (OECD,2021[19]).





SMEs need to transform, and networks can enable them to leapfrog

Networks represent strategic assets for SME access to digital solutions, data, skills, knowledge, and foreign markets (OECD, 2019[4]) (OECD, 2004[20]). Yet, SMEs' and entrepreneurs' ability to integrate into networks and take advantage of them, remains limited.

An analysis of over 600 policy initiatives across OECD countries shows that governments have been engaged across multiple fronts to strengthen SME and entrepreneurship networks, and, in doing so, strengthen their capacities to integrate into resilient and sustainable global value chains, increase the preparedness of SMEs and entrepreneurs to partner with multinationals, close gender gaps in exporting, and boost SMEs' and entrepreneurs' access to knowledge and innovation spillovers, and skills.

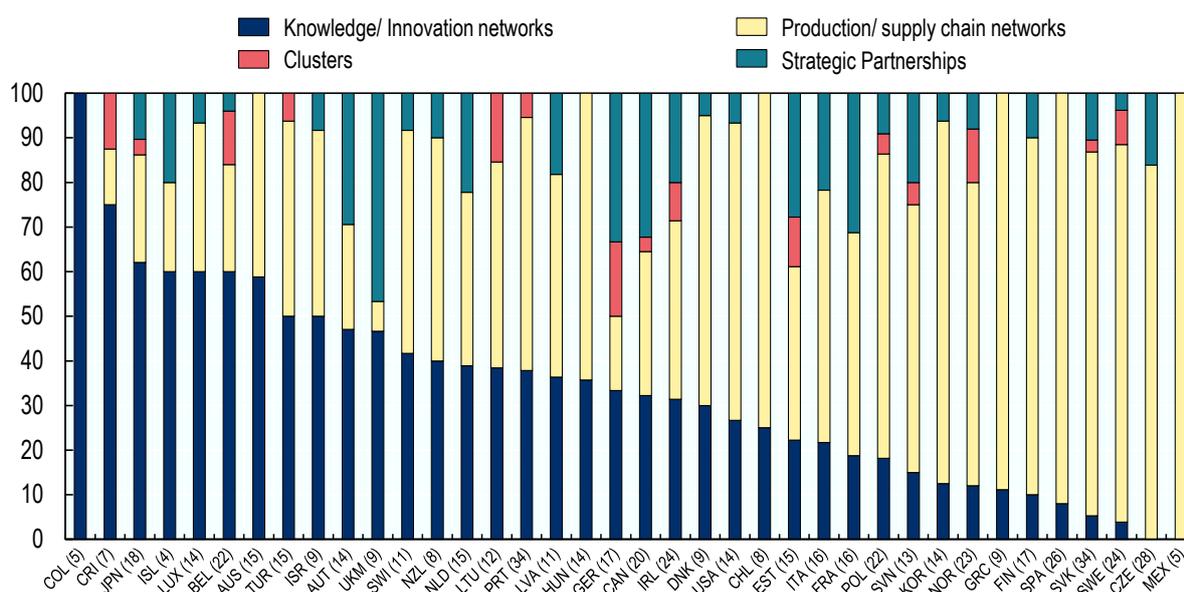
Many SMEs do not belong to any formal network, and membership varies across sector. In 2022, between 29%-41% of SMEs indicated not being a member of any network according to the Future of Business Survey. They are more likely to be involved in a professional network when they operate in knowledge-intensive information and communication services.

Across the OECD, close to 400 policies target stronger SME integration into production/supply chain networks, while almost 300 target integration into (global) knowledge and innovation networks. Another set of policies, though less frequently used, target the development

of strategic partnerships to link SMEs with business partners through contractual agreements, joint ventures, or consortia, and to SME integration into clusters, with strong specialisation and spatial concentration features (see Figure below).

» Most OECD governments place the strongest focus on integrating SMEs into production and supply chain networks

Distribution of national policies for SME network expansion by network type, in % of all policy measures in place



Note: Figures in parenthesis indicate the number of policies mapped for each country.
 Source: Own calculations, based on the OECD Data Lake on SMEs and Entrepreneurship and an international mapping of national policies and institutions supporting SME network expansion (EC/OECD project on Helping SMEs Scale Up).





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