Policy priorities for entrepreneurship: helping SMEs and entrepreneurs to survive and thrive

Small and medium sized enterprises (SMEs) are a vital source of growth and employment. They account for 60% of total employment in OECD countries, and 50-60% of value added across OECD markets. Today the development of new technology, and the continued internationalization of markets, offers challenges but also a wealth of opportunities to ambitious entrepreneurs.

Whether large, medium, small or start-up, businesses compete in international markets and must navigate complex regulatory regimes. To do so successfully they must find ways to sift through large amounts of information, often with limited resources. Smart and timely policies can help SMEs and entrepreneurs overcome economic and financial hurdles and facilitate job creation and economic prosperity.

The OECD has a critical role to play in developing a proactive multi-point work program to help entrepreneurs and SMEs succeed. This work program must build a strong evidence base about the diverse segments within the SME population, and help to identify which structural and targeted policies are most appropriate. The OECD is uniquely placed to foster dialogue on this subject among governments and the private sector.
Setting the right framework conditions helps SMEs of all aspirations grow sustainably

1) Calibrate the burden of regulation and encourage good governance

Businesses of all sizes need to comply with an ever increasing number of domestic and international regulations that carry significant operational costs. Regulation aims to guarantee the operation of markets, promote business development, and permit a level playing field, including participation in public procurement tenders.

However, regulatory burdens carry disproportionate costs to SMEs related to record keeping, employment, and tax regulations. Compliance costs can be so high that it can either discourage entrepreneurs from starting-up or drive SMEs out of business. Meanwhile, as SMEs expand, principles of good governance can help entrepreneurs build trust and sustainable practices with their growing set of public interlocutors and the communities where they do business.

Governments should be encouraged to consider the effects of new regulations on SMEs, as they tend to be disproportionately affected by even small legal changes.

Policy recommendations include:

- Ensure new regulatory proposals are tested with thorough Regulatory Impact Assessments, ensuring their direct cost and impact on SME competitiveness is taken into account.
- Set fixed dates for the implementation of new regulations, and set clear dates for the ex-post review.
- Conduct regular reviews of existing regulatory frameworks, ensuring they are fit for purpose.
2. Develop a pro-entrepreneurial tax system

Tax policy is a critical factor in the capacity of a new business to grow and thrive. Bracket effects in tax policy, triggered when companies grow beyond a predefined threshold, or after a certain amount of time, can have a significant impact on the prospects of a firm. Profitability developed in the early stages of new businesses can be fragile and easily reversed by small additional expenses. Thus, encouraging start-ups and new business creation should be one of the factors taken into account when setting a balanced tax environment that encourages growth and development in the short, medium, and long term.

Policy recommendations include:

- Develop a tax regime that fosters certainty and predictability of outcome over time, and removes prohibitive bracket effects for small businesses that may disincentive growth.
- Minimize the burden of tax compliance for smaller firms and entrepreneurs by seeking to simplify tax systems wherever possible.
- Consider offering guidance and support for SMEs as governments increasingly transition to digital compliance systems.
- Consider tax incentives to support SME capital investment, and SME credit availability.

3. Promote job market flexibility and life-long skills adoption

Joining – as much as creating – a small company can be a prime opportunity for motivated people to start or develop a career while contributing to the growth of the business. Equally, competitiveness, productivity and growth of SMEs are all linked to employee skills. Government policies should support the potential of SMEs by adopting flexible labour market policies and increasing efforts to support lifelong skills development. Promoting digital skills development for micro and small business owners and employees must be a structural priority going forwards.

Policy recommendations include:

- Increase the quality of education systems for individuals of all ages, including through updating curricula, improving teaching practices, fostering work-based learning opportunities, and expanding vocational education and training (VET).
- Create well-designed qualifications frameworks, formal recognition of skills acquired in non-formal learning, high-quality entrepreneurship education, and promote cooperation between SMEs and the education system at all levels.
- Promote flexible ways of working and of recruiting, such as through support for apprenticeship programs, and by recognizing and creating more atypical employment schemes.
- Ensure labor market regulation does not create bracket effects that may disincentivize SME growth.

4. Nurture a culture of innovation and entrepreneurship

Wealth creation and employment greatly depend on the speed by which scientific and technological breakthroughs are converted into innovative products and services for consumers. This requires both a culture of innovation and entrepreneurship to function successfully. Efficient flows of technology and ready supplies of skills should complement adequate government policies to create a dynamic and sustainable culture of innovation. Equipping people with entrepreneurial skills requires a comprehensive policy response and closer cooperation between the education system and employers.
Policy recommendations include:

- Create “win-win” collaboration ecosystems that deliver for business – including industry clusters, university collaboration and innovation – so as to improve SMEs’ access to cutting-edge technology and product testing capabilities.
- Consider increasing public investment in science and R&D policies – especially through pre-competitive R&D platforms.
- Guarantee high quality IPR protection and enhance SME awareness of this issue.
- Promote schemes that foster digital and automatization solutions at the SME level, to help increase productivity and foster participate in global value chains.
- Set a supportive tone from the top of government, celebrating entrepreneurial success.

Some challenges are unique to SMEs and require more targeted policy support

5. Identify and encourage potential entrepreneurs

Start-ups require a different set of policies compared with established SMEs, and OECD research shows a strong diversity in the current pool of potential entrepreneurs. By applying targeted policies, states can help more people move into entrepreneurship, including women, veterans, or people with disabilities. The silver economy, with its large experienced and skilled workforce could also be a prime target of governmental action. Females account for only 24% of total entrepreneurs in OECD countries, despite the encouraging improvement in the number of women running businesses during the past decade. Proactively supporting female entrepreneurial activity can considerably increase SME-led growth.

Policy recommendations include:

- Ensure tax financed social security systems also support new entrepreneurs, such as by providing easier access to family support and by promoting access to a number of public facilities (starting with schools or hospitals).
- Encourage business networks between aspiring entrepreneurs and business mentors, such as through start-up ecosystems.
- Ensure generation based entrepreneurial education, including youth entrepreneurship development schemes which fit to the special needs of the millennial generation.
- Recognize the challenge of business transfer by encouraging SME owners to develop succession strategies and identify ways to successfully transfer companies within or outside of the family.

6. Increase participation in the digital economy

E-commerce and the use of information and communications technologies (ICT) increases the average sales of SMEs, allows them to reach new markets, and makes their businesses more competitive globally. The adoption of e-business solutions for business-to-business online transactions and electronic exchanges with government transactions drastically reduce costs and improve market opportunities—but some essential policy challenges need to be overcome.

Policy recommendations include:

- Strengthen the technological competence of SMEs through specialized training and access to
advice, public data, and global information.

- Promote understanding about distributed ledger technology, and ensure clear regulation in this area both to support current applications, as well as innovation and new technology models.
- Allocate resources for investments in ICT and infrastructure in rural and remote areas.
- Establish and promote standards for data-enabled enterprise – i.e. enterprises able to use open and big data in their business planning and/or operations.

7. Facilitate access to international markets

The globalization of business has enhanced the role of SMEs as important contributors to global value chains through the goods and services they exchange within supply chains. By engaging in trade, SMEs can deliver value to customers worldwide and unlock growth potential on a much larger scale. Heightened international competition and barriers to international trade and investment hinder SMEs’ ability to develop and sustain business operations in larger and new niche markets.

Policy recommendations include:

- Simplify customs control mechanisms and regulations on export control, and support movement across borders for entrepreneurs.
- Provide effective export support by easing transportation regulations, improving transport and customs infrastructure, and the involvement of agencies dedicated to helping businesses abroad.
- Encourage international regulatory cooperation and a minimum level of comparability of SME financial information to facilitate supplier/customer due diligence across borders and foster SME exports.
- Promote the development and adoption of international standards, technological, commercial, and legal.

8. Improve access to finance

There is relatively higher-risk associated with many start-ups and smaller enterprises, due to their lower creditworthiness and shorter credit history, sometimes making debt difficult for entrepreneurs to obtain. In addition to debt, SMEs increasingly need other forms of financial services relating to international expansion, risk hedging solutions, and mergers and acquisitions. However, their access to, and frequently knowledge of, such services is also affected by some regulatory approaches. Financial access should be an ongoing priority for governments where SMEs face specific challenges.

Policy recommendations include:

- Ensure government support schemes recognize the different financing needs of SMEs with different growth profiles and aspirations, such as high-growth potential start-ups compared to classical micro businesses.
- Prioritise greater coordination between global financial regulators and government bodies; ensuring financial regulation does not hinder SME growth.
- Address the issue of late payment, such as through recognizing and promoting voluntary codes of practice in this area.
- Support alternative financing channels, such as small business equity funds, business angels and microcredit outlets, and support awareness-raising about the benefits of accessing public equity markets.
- Build awareness about the benefits of obtaining independent professional advice to support good business management and improve the chances of securing external finance.
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