
SMEs ... upscaling for growth

Whatever you can do, or dream you can do, begin it. Boldness has genius, power, and magic in it. Begin it now. – Goethe



Small and medium-sized enterprises (SMEs) catalyze national economies worldwide. The Organisation for Economic Co-operation and Development¹ (OECD) reports that SMEs constitute 99% of businesses, generating 60% of employment and 50-60% of value-added. They deliver prosperity at a time when many countries face low growth and productivity, along with rising inequality.

SME growth impacts employment, innovation, productivity, and competitiveness. It offers new opportunities to participate in digital technologies and global value chains. Yet, SMEs lag in digital transitions and are disproportionately affected by market failures, trade barriers, policy inefficiencies, and institutional shortcomings.

SMEs help economies adapt to the challenges of societal transformation. Cross-cutting policies can accelerate SME scale-up and contribute to inclusive growth. A business environment conducive to risk-taking and experimentation enables entrepreneurial competencies, technologies, and networks to thrive.

Levering growth factors

Digitalization, demographics, and capacity are three of the leading drivers of SME growth.

Digitalization. Digital technologies allow SMEs to access global markets and knowledge networks to improve market intelligence at relatively low cost. ‘Born global’ small businesses scale up without massive infusion of employees or tangible assets. Big Data and data analytics enable SMEs to scan the business environment and competition, diversify products and services, streamline production processes, and pinpoint clients’ and partners’ needs. Digitalization facilitates SME access to financing instruments and talent sites, sources, and partners. Canadian SMEs have not reaped the full benefits of the technological transition. The digital divide with large firms is narrow for simple connectivity and web presence. The gap broadens for participation in e-commerce and adoption of more sophisticated applications. Closing these gaps calls for policies that develop innovation skills and invest in organizational change.

Demographics. SMEs are a dynamic population that is diverse in business age, size, structure, performance, and entrepreneurship across countries and sectors. Every year, a significant number of economically-sound SMEs disappear from the market because of problematic business transfers that undermine continuity and value creation. In Canada, 40% of entrepreneurs fear failure, primarily due to barriers to restructuring firms. Entrepreneurs lose opportunities to start new businesses, rethink the vision and model, and innovate with up-to-date knowledge and methods. Stronger evidence is needed to

raise awareness early of succession and acquisition planning, develop business transfer markets, account for the tax consequences of sale or disposal, and ensure appropriate financing offers. SMEs' diverse traits and contributions implicate how policies are crafted.

Capacity. SMEs require expanded skillsets—commercial, financial, project management, strategic thinking—to channel the complexities of today's economies. This is particularly challenging for smaller firms, where a greater proportion of workers than in large companies are involved in implementing business innovation on the 'shop floor'. Policies that enable SMEs to attract, retain, and develop qualified skills and upgrade managerial practices are essential to boosting growth. In Canada, 55% of entrepreneurs believe they have the capabilities necessary to start and run a business.

Making good policy

Government as policy maker enforces the imperative of a shared policy agenda. Evidence suggests that there is substantial direct public expenditure on SME and entrepreneurship programs that reflects government policy priorities. Other policy measures that target SMEs have important indirect public finance implications through foregone tax revenue. Monitoring and evaluation are fundamental to assessing the economic efficiency of SME policies and to informing policy design and outcomes.

SMEs make multidimensional contributions to inclusive growth, supported by an evidence-based policy environment. Governments are called to enable SMEs to participate in national and global economies, capitalize on digital transitions, access appropriate forms of finance, train entrepreneurs, upskill workers, and convene multi-stakeholder policy dialogues.

The onus is on government to:

- Understand SME heterogeneity, business drivers, and international policy implications;
- Match SME structural reforms with the role and impact of targeted policies;
- Analyze the contribution of entrepreneurship to social inclusion;
- Enhance SME contributions to sustainable and inclusive growth; and
- Share good practices in evidence-based policy development.

When it comes to SMEs, small is beautiful, but bigger is better.



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¹ OECD (2019): *Strengthening SMEs and Entrepreneurship for Productivity and Inclusive Growth: OECD 2018 Ministerial Conference on SMEs*; OECD Studies on SMEs and Entrepreneurship; OECD Publishing: Paris. <https://doi.org/10.1787/c19b6f97-en>