
SMEs ... serving public purpose

It's critical for governments to accelerate efforts to create the conditions for private enterprise to thrive and communities to prosper. – Jim Yong Kim



Government plays a central role in promoting business interests. Public policy supports sustainable business and economic development. Business also has a growing stake in helping government deliver public services. Government and business working together can make for an empowered, productive society.

But the relationship invites controversy: Why does government need to enable the business environment?

What is the right balance between government policy

and business regulation? Who should manage business-government relations? How well do public-private partnerships work? How entrepreneurial should government be? What can government do to help business go international?

Working with government

Government is an economic enabler of SME growth. The business-government interface in policy, regulation, finance, service, and strategy features significant roles, relationships, and results for SMEs.

Employment. SMEs create jobs across regions, sectors, and occupations. Businesses with more than 250 employees represent 50-60% of the workforce. Entrepreneurship is an important vector for social participation, upward mobility, and economic growth. Women, seniors, youth, migrants, minorities, and the disabled typically face barriers to business creation. Multiplying SME business start-ups can boost labour market participation, productivity, wages, and income. National and sub-national employment departments target policies and tailor job strategies to SME growth journeys to enable conditions that favour post-entry growth, growth from small to mid-size firms, and scaling up mid-size companies.

Innovation. SMEs are innovators at the productivity frontier, jumpstarting new industries. They commercialize breaking research often overlooked by large companies. Start-ups apply competitive pressure to incumbent firms by adapting and diffusing radical innovations and disruptive technologies in different contexts. Innovation from collaboration among businesses that exchange knowledge with partners is on the rise. The paradigm shift towards open, systemic innovation is facilitated by digital transitions that reduce the need for capital investment and ease SME participation. Instead, SMEs strengthen their capacity to network. Industry departments promulgate sector policies, strategies, and programs that incubate technologies, products, and entrepreneurs.

Financing. Access to appropriate forms of finance enables SMEs to start up, develop, and grow. Loan rejection rates of less than 10% indicate that bank lending has largely recovered since the Global Economic

Crisis. Market failures and structural challenges remain, including information asymmetries, high SME servicing costs, and financial competency deficits. Policies that diversify financing instruments can increase SMEs' resilience to changing credit markets and their contribution to economic growth. The G20 advocates holistic policy to address both the demand-side and supply-side barriers of SME financing gaps. Government lenders of last resort like the Business Development Bank of Canada buttress SMEs.

Business environment. A well-functioning entrepreneurial eco-system spurs SME national, regional, and local development. SMEs are typically more vulnerable to market failures, policy inefficiencies, and regulatory inconsistencies. Enabling institutional settings and conditions incentivizes risk-taking, experimentation, and business growth. Transparent regulation, efficient bankruptcy laws, and reliable judicial systems support growth of SME start-ups, especially in innovative, high-risk sectors. Pro-business policy fosters SME participation in the globalized, digital economy, underpinned by government programs and services. For example, federal-provincial Business Service Centres offer life-cycle support, entrepreneurial development, and sector guidance to Canadian businesses.

Going global. SME participation in global markets levers scale-up and productivity that accelerate innovation, technology, and learning. International exposure through imports, exports, and foreign direct investment goes hand in hand with higher productivity and wages. In Canada, SMEs that export directly typically represent only 30% of trade turnover. However, SMEs' indirect contribution to exports as suppliers to larger domestic firms or multinationals represents more than half of total export value-added. Trade departments coordinate whole-of-government approaches to ameliorate constraints to SME international aspirations.

Getting stronger together

SMEs contribute best to societal transformation when government policy mitigates barriers and inefficiencies that constrain entrepreneurship and small business development. Policies that ease SMEs' access to services, resources, and infrastructure add strategic value in the global, digital economy.

The World Bank's *Doing Business 2019*¹ provides objective measures of 314 reforms of business regulations. Reforms carried out in 128 economies benefit SMEs and entrepreneurs, enabling job creation and stimulating private investment. Ease-of-doing-business rankings include starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. Canada ranked third on starting a business and twenty-second overall.

Since 2004, the Institute for Citizen-Centred Service (ICCS) has championed *Business First*, landmark studies of government-to-business service delivery from the perspective of the business community. The research identifies issues relevant to government service providers as change leaders testing new ideas and technologies to improve services. Government responses benefit from listening to the needs of Canadian businesses who want improved access to service and value for tax dollars.

In 2016, *Taking Care of Business 5*² survey results revealed:

- Improving satisfaction – businesses expect still better service quality, with timeliness the top driver;

- Growing self-service options – 75% of businesses want online access to routine services; and
- Rising red-tape burden – 48% of businesses report increased red tape over the past three years.

There is room to grow and improve in SME-government reciprocity.



JOHN WILKINS IS ASSOCIATE IN PUBLIC MANAGEMENT AT YORK UNIVERSITY AND FORMER EXECUTIVE IN RESIDENCE FOR BUSINESS AND GOVERNMENT WITH THE SCHULICH SCHOOL OF BUSINESS. HE WAS A CAREER SENIOR PUBLIC SERVANT AND DIPLOMAT. (JWILKINS@SCHULICH.YORKU.CA)

¹ World Bank (2019): *Doing Business 2019: Training for Reform*; Washington, DC: The World Bank Group; 31 October 2018. https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf

² ICCS (2016): *Taking Care of Business 5*; Ipsos Research. <https://iccs-isac.org/annual-report/2017/updates/taking-care-of-business-5>