Review

Not peer-reviewed version

Enhancing the Role and Contributions of Small and Medium Enterprises (SMEs) in a Globalized and Innovative Economy: Challenges and Opportunities

Andrew Enaifoghe *

Posted Date: 25 May 2023

doi: 10.20944/preprints202305.1748.v1

Keywords: Entrepreneurial enterprises; SME; economy; economic growth; job creation

Review

Enhancing the Role and Contributions of Small and Medium Enterprises (SMEs) in a Globalized and Innovative Economy: Challenges and Opportunities

Andrew Enaifoghe [1,*] and Makhosazana F. Vezi-Magigaba [2]

[1] Department of Business Management, University of Zululand, South Africa, andyransey@gmail.com
[2] Department of Business Management, University of Zululand, South Africa, MagigabaM@unizulu.ac.za
* Correspondence: andyransey@gmail.com*

Abstract: This article explores the Role and Contributions of Small and Medium Enterprises (SMEs) in a globalized and innovative economy, looking specifically at the challenges and opportunities. The establishment and expansion of new firms provides a sizable amount of net new jobs. While high-expectation entrepreneurial enterprises and gazelles are usually found among innovative and technology-based new organizations, it is also essential that there be a sizable supply for them to play a significant part in economic growth. In other words, encouraging all forms of entrepreneurship is likely to increase the number of innovative, fast-growing enterprises as well as entrepreneurship. In many European countries, entrepreneurship needs to be encouraged. Findings show the crucial role the SME sector plays in the South African economy in tackling sustainable development. About 90% of all official firms in South Africa are thought to be small, medium, or micro-enterprises. The study concluded that one of the major contributions to the South African economy is the SME sector. The SME is not just viewed as a source of new jobs, but also as a sector that absorbs laid-off workers from both the private and public sectors.

Keywords: Entrepreneurial enterprises; SME; economy; economic growth; job creation

---

0. How to Use This Template

The template details the sections that can be used in a manuscript. Note that each section has a corresponding style, which can be found in the "Styles" menu of Word. Sections that are not mandatory are listed as such. The section titles given are for articles. Review papers and other article types have a more flexible structure.

Remove this paragraph and start section numbering with 1. For any questions, please contact the editorial office of the journal or support@mdpi.com.

1. Introduction

The study examined the challenges and opportunities in enhancing the role and contributions of Small and Medium Enterprises (SMEs) in a globalized and innovative economy. The goal of this study is to synthesize what is currently known about small and medium-sized businesses (SMEs) and their benefits to the digitalized economy and social society. It outlines the many traits of SMEs as well as the opportunities and difficulties they encounter in a globalized and digital economy (Enaifoghe & Vezi-Magigaba, 2022). Additionally, it points out areas that require additional research and where there are knowledge or data gaps. To assist Members and Partners in adopting a consistent approach to policies that affect and/or target SMEs, including across levels of government, the document makes the case for starting the future development of an OECD Strategy for SMEs.

The study also indicated that SMEs aim to improve policy synergies and address potential trade-offs. Governments may help SMEs compete on an even playing field and improve their contributions to inclusive growth by developing and implementing an OECD strategy in the future (Enaifoghe & Vezi-Magigaba, 2022). This would happen in various economic and social circumstances. It should be emphasized that there is no accepted definition of a small or medium-sized business (SME) on a

 doi:10.20944/preprints202305.1748.v1

global scale. Because a firm's "small" and "medium" dimensions are correlated with the size of the domestic economy, SMEs are classified differently in different nations' legal systems. The OECD defines SMEs as businesses with up to 249 employees for statistics purposes, with the following breakdown: micro (1–9), small (10–49), and medium (50–249).

(OECD, 2017). Given the diverse data-gathering methods used in different nations and the fact that some of them have distinct norms, this allows for the best comparability. A significant portion of net new jobs is created as a result of the launch and growth of new businesses (OCDE 2014). While gazelles and high-expectation entrepreneurial firms are frequently found among inventive and technology-based new businesses, it is also crucial that there be a sizable supply for them to play a substantial role in economic growth. In other words, promoting general entrepreneurial activities is likely to enhance both entrepreneurship and the number of creative, high-growth businesses. There is a need to promote entrepreneurship in developing countries.

2. Materials and Methods

A systematic assessment of previously published research offers an efficient technique to recognize and discriminate causative processes on various levels given the abundance of ESD literature. The literature's explicit and implicit causal processes are the main focus of the review. The benefit of performing a systematic evaluation of the literature is its capacity to offer extra viewpoints and theoretical conceptualizations that the individual articles could not accomplish on their own (Arthurs & Busenitz, 2003).

Using the multilevel causal mechanism framework, we can separate 52 causal mechanisms into different categories as a result of this systematic review (Feng & Chen, 2020). The study outlines the differences and connections between these causal processes. While certain processes have been identified in earlier literature, such as barriers to entrepreneurship caused by institutional resistance (Li et al., 2022) and market failures creating opportunities for sustainability, these processes should be linked to create chains of mechanisms explaining the market and societal transformations rather than attempting to explain these changes individually (Mudassir, 2020).

3. Literature Review

The Essentiality of SMEs in delivering more inclusive globalisation and Growth

The difficulties of sluggish growth, weak trade and investment, and increasing or consistently high inequality are being faced by governments in many nations, and particularly in OECD countries (OECD, 2016a). They must also contend with rising public discontent with the way things are going, which is also showing itself as a reaction against globalization and technological advancement. To make free markets and technological advancement more beneficial and widely distributed throughout the economy and society, it is necessary to provide the right circumstances (Enaifoghe, Aina & Durokifa, 2021). It is critical to recognize that SMEs play a significant role in the economy and the larger business eco-system.

To accelerate economic growth and bring about a more inclusive globalization, we must provide them the tools they need to adapt, prosper in an open environment, and engage more actively in the digital transition. Small and medium-sized enterprises (SMEs) play a critical role in achieving the Sustainable Development Goals (SDGs) across all nations and levels of development by fostering inclusive and sustainable economic growth, providing employment and decent work for all (Erdin & Ozkaya, 2020), fostering sustainable industrialization and innovation, and lowering income disparities.

The ability of SMEs to participate in and benefit from a globalized and digital economy, however, heavily depends on supportive regulatory environments and strong competition. SMEs are disproportionately affected by market failures, impediments, and inefficiencies in the industry because of internal company restrictions and policy sphere (Muller et al., 2017). The contributions of SMEs also depend on their access to key resources like knowledge networks, funding, and skills, as well as on government investments in infrastructure, innovation, and fields like education and training (Anderson & Eshima, 2013). A favorable environment for the transfer of business ownership

 doi:10.20944/preprints202305.1748.v1

or management also constitutes a critical requirement for guaranteeing the long-term survival of many SMEs, with consequences for employment, investment, and development.

The problems have gained attention in the policy discussion as SMEs in some countries continue to struggle with the long-lasting effects of the global financial crisis of 2007–2008, which disproportionately affected new and small businesses and marked a widening of the productivity gap between SMEs and large firms (OECD, 2017a, 2017b). The observed growth in inequality, particularly salary disparity, in many nations is largely a result of this difference (OECD, 2016a). The SME policy landscape is complex. It consists of general policies that affect SMEs, framework conditions, and targeted policies with a particular interest. These sectors frequently cross the lines between departments and government organizations as well as across levels of government.

It is crucial to take into account factors affecting framework conditions at the local level, how policies developed at the national level are tailored to local conditions, and how they coordinate with policies that are shaped at the regional or territorial level because SMEs are frequently embedded in local eco-systems (Andersson & Noseleit, 2011). This serve as their primary source of knowledge, skills, finance, business opportunities, and networks (OECD, 2016e). Additionally, policy plans should include how cross-border changes in laws, markets, and technology may impact the prospects for and performance of SMEs.

THE OPPORTUNITIES OF SMES IN A GLOBALiZED ECONOMY

The sections below examine the opportunities and challenges SMEs face in a global and digital economy. When considered collectively, these findings make a compelling argument for creating a cross-cutting OECD Strategy for SMEs, which may advance the discussion and spark changes in the regulatory environment and SME policies in Members and Non-Members to produce more equitable and sustainable growth.

SMEs make diverse contributions to economic and social well-being,

SMEs contribute in a variety of ways to the economic and social well-being, which might be improved further. Globally, SMEs are important to national economies because they create jobs and contribute value. 8. Small and medium-sized businesses (SMEs) make up nearly all businesses in the OECD region, or 99% of all organizations. They are a key contributor to value creation, adding between 50% and 60% of value added on average, and serve as the primary source of employment, making up around 70% of jobs on average (Figure 1). (OECD, 2016b). SMEs make for up to 45% of all employment and 33% of GDP in emerging economies. In most nations, SMEs account for more than 50% of employment and GDP after accounting for the contribution of informal companies, regardless of wealth levels (IFC, 2010). Additionally, the growth of SME's can support resilience and economic diversity. This is especially important for resource-rich nations as they are more susceptible to changes in commodity prices.

SMEs contribution to innovation

As income growth, more specialized market demand, and evolving technologies have allowed SMEs to strengthen their comparative advantages and reduce the structural disadvantages resulting from resource limitations and limited capacity to realize economies of scale, SMEs' contribution to innovation dynamics has increased over the past few decades (Aparicio, Urbano & Audretsch, 2016). While not all SMEs are innovative, new and small businesses are frequently the driving force behind the kinds of radical innovations that are crucial for economic growth because they can operate outside of dominant paradigms.

They take advantage of technological or commercial opportunities that more established businesses have overlooked, or facilitate the commercialization of knowledge that would otherwise remain uncommercialized in universities and research organizations (Baumol, 2002; OECD, 2010a). For instance, in Europe's biotechnology-related disciplines, SMEs account for around 20% of patents, which is one indicator of innovation (Eurostat, 2014). SMEs also contribute to value creation by embracing innovations created elsewhere, incrementally adapting them to new contexts, and offering new or specialized goods that address a range of client demands.

They also help by providing services in areas that lack the size to draw bigger businesses. Additionally, new and small businesses have been able to boost their contributions to innovation thanks to the knowledge-based economy, growth in non-technological innovation, and the advent of open or network-based forms of invention (OECD, 2010a). Knowledge transfers, network access, and chances for collaboration with other parties, especially larger companies, all have a significant impact on how innovative SMEs are. To receive innovation's inputs (ideas, financing, skills, and technologies) from abroad and to capitalize on its outputs (products and services, patents, licenses, etc.) in foreign markets, cross-border collaboration in innovation has become more crucial as a result of globalization (Audretsch, Coad & Segarra, 2014).

The identification of appropriate knowledge partners and networks at the local, national, and international levels as well as the development of suitable management practices and skills for coordinating and integrating knowledge created by external partners with internal practices and innovation processes present significant challenges for many SMEs (OECD, 2013b).

SMEs are central to the efforts to achieve environmental sustainability

The greening of economic development depends on SME engagement in the shift to more sustainable patterns of production and consumption. Small firms may have minimal individual environmental footprints, but their combined effects in particular industries may be greater than those of major corporations. A critical element of the success of the green transformation is reducing the environmental effect of SMEs by attaining and exceeding environmental compliance with current rules and regulations in both manufacturing and services. This is especially important for SMEs in the manufacturing sector, which is responsible for a significant portion of the world's resource consumption, air and water pollution, and waste creation (OECD, 2013a). Small and medium-sized enterprises (SMEs) can benefit from the green transition as significant providers of green commodities and services.

Innovative SMEs are crucial players in the ecoindustry and clean-tech marketplaces in several OECD nations. For instance, SMEs account for 90% and 70% of clean technology companies, respectively, in the UK and Finland (Carbon Trust, 2013; ETLA, 2015). Small and medium-sized businesses (SMEs) are particularly well-positioned to take advantage of opportunities presented by greener supply chains in local clean technology markets, which may be unattractive or inaccessible for large global corporations, including those in emerging economies and low-income countries (IBRD, 2014).

Additionally, small "green entrepreneurs," motivated by financial gain and environmental awareness, can promote a bottom-up transformation and the creation of jobs by creating new business models and setting the standard for green business practices that eventually influence mass markets and are embraced by the larger business community (OECD, 2013a).

However, due to their size, SMEs frequently encounter resource limits, talent gaps, and knowledge barriers that limit their motivation and capacity to embrace sustainable practices and take advantage of green business prospects (Ayyagari, Demirguc-Kunt & Maksimovic, 2014). SMEs are frequently prevented from making environmentally friendly upgrades due to perceived technical difficulties, expenses, and hassles as well as a lack of knowledge about lucrative business alternatives. Additionally, SMEs frequently lack the necessary skills and knowledge to take advantage of win-win chances, and resource limitations frequently cause SMEs to be more risk-averse and less inclined to invest in new technology than bigger enterprises (EaP Green, 2016; Mazur, 2012).

SMEs offer more inclusive growth

SMEs generate employment possibilities across industries and geographies, utilizing large portions of the labor pool, including unskilled labor, and offering chances for skill advancement. Additionally, they assist in facilitating the access of their workers to social and medical services (Mazur, 2012). In order to increase participation and reduce poverty, SMEs that provide employment and value added are crucial, albeit not only in developing and low-income countries. In this regard, increasing productivity in a sizable number of small businesses, including those in traditional industries and the informal economy, can assist governments in achieving their goals of economic growth and social inclusion, including escaping productivity traps and enhancing the quality of employment opportunities for low-skilled workers (OECD, 2009, 2017b).

Small businesses as an effective tool to address societal needs

Additionally, small enterprises may be a powerful vehicle for addressing social needs through the market and offering public goods and services. This is the situation with social businesses, which provide novel approaches to the issues of poverty, social exclusion, and unemployment as well as filling in the gaps in the supply of general-interest services (EU/OECD, 2016). The economic importance of the social and solidarity economy, in which social companies operate, has gradually risen in recent years, notably in the wake of the financial crisis, in many nations.

For instance, the social economy contributed 10% to the GDP of France in 2014. Employment in social companies climbed by 12% in Belgium between 2008 and 2014, accounting for 17% of all private employment in 2015. (EU, 2016). In comparison to SMEs, 41% of social companies in the United Kingdom produced jobs in 2015. (SEUK, 2015). Additionally, by enabling disadvantaged or marginalized groups, such as children, women, seniors, immigrants, members of racial or ethnic minorities, and people with disabilities, to create their own opportunities to participate in the economy, entrepreneurial opportunities can serve as a significant conduit for economic and social inclusion as well as upward mobility.

Corporate social responsibility (CSR) is increasingly seen in many nations as a method for firms, particularly SMEs, to support societal objectives. Small firms may support sustainable and inclusive growth, particularly at the local level, by committing to decent labor and environmental practices as well as excellent community ties. Additionally, CSR may strengthen a company's ability to recruit and retain competent and motivated personnel as well as the perception that consumers, investors, and other stakeholders have of the company.

SMEs contributions vary widely across firms

Corporate diversity is important for inclusive growth, innovation, productivity, and job creation. Even while there are significant variations between SMEs and large companies, the SME community as a whole is often made up of extremely different enterprises in terms of age, size, ownership, business methods, and the profiles and objectives of the entrepreneurs. SMEs are crucial to the larger business eco-system. Young companies, often tiny or micro businesses, are the main drivers of net employment growth in many nations. Additionally, business factors play a significant role in the rise of productivity (OECD, 2016b).

The majority of new businesses either fail in their first few years of operation or stay relatively tiny (OECD, 2016c). Additionally, high-growth businesses in many industries and age groups make disproportionately large contributions to job growth (OECD, 2010b). The main drivers of growth in many OECD economies are established medium-sized businesses that innovate and scale up, frequently assuring the coordination, improvement, and participation of smaller suppliers in supply chains. For instance, in Switzerland, medium-sized businesses (50-249 people) account for 23% of employment and 25% of value contributed, although comprising just 4% of the country's company population (OECD, 2016b).

Additionally, there are many of thriving small businesses operating in low- or mid-tech fields that are integrated into competitive local production systems, provide innovation—often incrementally—and support employment, social inclusion, and territorial cohesion. However, a lot of small businesses stay inside their local marketplaces (Barbieri, Piva & Vivarelli, 2016). These businesses frequently stay tiny throughout since they create little innovation and do not have goals for significant expansion.

SMEs are a dynamic and changing population in all nations and industries.

The population of SMEs is dynamic and ever-changing. Their makeup varies greatly among nations and industries, which has an impact on their capacity to prosper in and contribute to a free-flowing, digital economy. Micro-enterprises (up to 9 employees) account for 70% to 95% of all businesses worldwide, dominating the commercial landscape. However, there are noticeable cross-country disparities in how much value produced and employment are contributed by microbusinesses.

As an illustration, their employment proportion in the services sector varies from more than 60% in Greece to 20% in Denmark and Germany, while their value added share varies from around 45% in Luxembourg to 15% in Switzerland (OECD, 2016b). The success of SME also differs by industry. In practically every country, SMEs provide 60% or more of total employment and value added in the services sector. Contrarily, although being relatively small in number, large manufacturing enterprises contribute disproportionately to employment and value added. This is mostly because of entry obstacles connected to investment as well as growing returns to scale from more capital-intensive operations.

Large manufacturing groupings account for a sizeable portion of overall employment and value added in several nations, like Germany and Mexico. There are certain exceptions, though. These include both bigger and smaller economies where SMEs historically dominate manufacturing activity, such as Italy, as well as smaller economies like Latvia and Estonia (OECD, 2017c: 24). A better comprehension of the contributions and difficulties of various types of "SMEs (i.e. a typology of firms) is needed to guide structural and targeted policies".

Access to international markets and knowledge networks is made possible by SMEs.

The contributions of SMEs can be strengthened via improved access to international markets and knowledge networks. By fostering opportunities for scaling up, accelerating innovation, facilitating spillovers of technology and managerial know-how, extending and deepening skill sets, and increasing productivity, a greater presence of SMEs in global markets can support their contributions to economic development and social well-being (Botric, 2012).

Additionally, SMEs may have a competitive advantage over larger companies in international markets due to their increased flexibility and capacity to customize and differentiate products. This is because SMEs are better able to react quickly to shifting market conditions and products with shorter life cycles. SMEs dominate several specialized worldwide markets, and creative small businesses are frequently important partners of bigger multinationals in creating new items or providing services to new markets (Blanchard, Amighini & Giavazzi, 2010).

Additionally, as a result of greater local market rivalry for SMEs and, in certain circumstances, disruptive consequences, tighter global integration, small enterprises that do not do foreign commerce must also become more competitive. SME representation in international trade is generally lacking. Few SMEs export directly between OECD and non-OECD Members, and for those that do, exports often constitute a lesser percentage of trade turnover (compared to bigger enterprises), and typically target neighboring nations (OECD, 2016b).

However, SMEs in OECD nations can account for more than half of overall exports in value added terms when taking into account their indirect contribution to exports as suppliers to bigger domestic enterprises or multinational corporations (MNCs) that export. Links with bigger enterprises upstream and downstream are essential for SMEs (OECD and World Bank Group, 2015). Since the quality and responsiveness of specialized suppliers, who are mainly SMEs or even micro firms, can be crucial for the competitiveness of entire supply chains (Calvino & Virgillito, 2018). At both local and global levels, as well as of larger groups who are directly engaged in fierce global competition, the advantages of these inter-firm links run in both directions. Close collaboration and dependency between large and small enterprises may, in this regard, be a significant source of value and competitiveness along supply chains.

SME participation in global value chains and marketplaces

The SME community participates in global marketplaces and value chains in varying degrees. A limited number of "born global" companies and highly innovative SMEs that are completely integrated into global markets (small multinationals) as well as a sizable portion of SMEs that export or are entrenched in GVCs as suppliers of exporters make up the small multinationals category. However, for many SMEs, export connections may be transient, with new exporters stopping their operations in many countries after a year or two and longer-term exporters frequently altering their goods and destinations (Wagner, 2015).

Preprints (www.preprints.org) | NOT PEER-REVIEWED | Posted: 25 May 2023 doi:10.20944/preprints202305.1748.v1

Smaller and less seasoned exporters are frequently more susceptible to a sudden decline in external demand, such as in the wake of a worldwide crisis (IBRD, 2010; Beverelli et al., 2011). Additionally, recent research indicates that SMEs in developing nations may find it difficult to take advantage of the new opportunities presented by the changing GVC scenario (Coad, Segarra & Teruel, 2016). Many SMEs may incorporate GVCs at the low-value end, where connections between MNCs and their local suppliers can be sparse and challenging to forge, even when the MNC has a commercial interest in doing so and aggressively pursues the goal (OECD and World Bank Group, 2015).

In fact, data shows that SME indirect exports from underdeveloped countries may be smaller than those from wealthy countries (OECD, 2017d). A better understanding of how SMEs interact with larger companies and MNCs in various contexts and along different value chains, the function of clusters for SME participation and upgrading, as well as how GVCs are evolving, including as a result of the digital transition, is required in order to develop policies that can support SMEs in taking advantage of the new opportunities offered by GVCs.

THE CHALLENGES FACED BY SMES IN A DIGITALIZED GLOBAL ECONOMY

Trade and investment barriers undermine SME participation

Openness to trade and investment, as well as trade facilitation, protection of intellectual property, infrastructure, and institutional quality, are essential for SME participation in international markets. Due to their limited resources and managerial capabilities, SMEs are less equipped than large corporations to handle the expenditures associated with conducting international business (Dogan, Qamarul Islam & Yazici, 2017). The ability to decrease regulation and institutionalize other excellent regulatory practices can help SME competitors in both developed and developing markets by reducing regulatory costs and burdens. Since many of the expenditures associated with entering foreign markets are fixed and frequently sunk costs, independent of a firm's size or sales, compliance with a variety of standards, technical laws, and conformity assessment procedures can be expensive for SMEs.

For SMEs, which may find the associated administrative and financial responsibilities particularly onerous, predictable and effective customs processes and logistical services are essential (OECD, 2015a; USITC, 2014). The new WTO Facilitation Agreement's National Trade Facilitation Committees are a great mechanism for obtaining SME feedback. Additionally, SMEs may not be able to profit from the advantages of more efficient sourcing due to import restrictions. For instance, SMEs tend to source less of their value added from abroad than bigger companies in Southeast Asia, an area that has welcomed GVCs (OECD, 2017d).

Poor physical and ICT infrastructure and SMEs international markets competitiveness

SME operations are hindered by inadequate physical and ICT infrastructure, which also makes it more expensive for them to reach foreign markets. Time is a key factor in competitiveness in a world where just-in-time delivery is the norm, when transportation is quick and storage is expensive. For firms to expand internationally and take part in GVCs, the physical infrastructure—such as roads, ports, and airports—as well as the operational practices used at these facilities must be of a high standard (Du & Temouri, 2015). These are frequently the most significant negative aspects that SMEs looking to take advantage of international prospects highlight in emerging markets (COMCEC, 2013). Accessing global markets requires the creation of an effective information and communication technology (ICT) infrastructure, as well as improved interoperability and standards, since they enable communication and information sharing as well as participation in e-commerce platforms (BIAC et al., 2016; OECD, 2017a).

Digitalisation of Global Economy: Opportunity for SMEs?

New opportunities for SMEs to engage in the global economy have been created by digitization. With the aid of digital technologies, SMEs can gain a better understanding of the industry, expand without going worldwide, and have access to knowledge networks for comparatively little money. The shift to a digital economy promotes the formation of "born global" small enterprises and offers SMEs new chances to improve their competitiveness in local and international markets through the innovation of products or services and enhanced production techniques. It also makes it easier for "lean start-ups" to emerge, which use the Internet to save fixed costs and outsource a lot of their operations to stay flexible and responsive to the market (OECD, 122017f).

Moreover, Big Data and data analytics provide SMEs a variety of alternatives that allow for a deeper comprehension of internal processes. The procedures used by the company, the requirements of their clients and business partners, and the general business environment (European Commission, 2018). "The use of digital technologies can also ease SMEs' access to skills and talent, through better job recruitment sites, outsourcing and online task hiring, as well as connection with knowledge partners" (OECD, 2017f). Also, it might make it easier to access a variety of funding options.

SMEs are lagging behind in the digital transition

While digitalization gives SMEs new ways to connect with global markets, the truth is that many SMEs have not been able to benefit from the change in technology. Research suggests that SMEs are embracing digital technology more slowly than larger companies. While the gap is generally small for basic connectivity and web presence, it widens when taking into account involvement in e-commerce and, particularly, more advanced apps. For instance, in OECD nations, large companies are more likely to employ enterprise resource planning (ERP) software tools to manage company information flows (more than 75% adoption rate in 2014) than SMEs (less than 20%).

A significant adoption gap is also seen for cloud computing, or the renting of computer power, in several nations from an outside source, which can help smaller businesses leverage Big Data while getting around some of the difficulties brought on by the large fixed costs of ICT investment. The adoption lag of SMEs is mainly due to lack of investment in complementary knowledge-based assets, such as R&D, people resources, organisational reforms and process innovation, and has repercussions for their capacity to turn technical change into innovation and productivity growth.

For instance, SMEs' ability to fully exploit new technologies to boost data analytics and increase their engagement in knowledge networks is constrained by a lack of investment in internal innovation processes and organizational capacities. The ICT revolution has actually made it simpler for businesses to innovate through networks of cooperation with other companies, especially multinationals, universities and research organisations. To effectively coordinate with outside knowledge partners and incorporate outside knowledge into internal processes, this calls for organizational and management skills as well as innovative talents (OECD, 2010a, 2015b).

Disruptive effects need to be considered

Digitalization has also caused market disruption for many SMEs, including increased local market competition, quick obsolescence of knowledge, skills, and business models, as well as increased complexity in the business environment. Moreover, "winner-takes-all" dynamics, where digital technology enables full and immediate upgrading of the winning product or idea, frequently at the global level, might have significant ramifications for dividend distribution and participation of new businesses and SMEs in markets. It is necessary to have a clearer grasp of how these various digital advances will affect SMEs. 3. SME involvement in and advantages from an open and interconnected economy depend on the business environment.

For nations and regions to encourage SME participation in a globalized economy, a healthy business climate and an entrepreneurial "eco-system" for business, even at the local level, matter. This is even more crucial in the contemporary environment because of the heightened pressures of competition and the rapid pace of technological development, which call for adaptability, innovative behaviour in all spheres of public government, and simple access to strategic resources (Eurostat, 2018). While framework circumstances influence overall business investment, innovation, and growth, some aspects have a disproportionately negative impact on newly founded SMEs (OECD, 2017a). The institutional and regulatory framework's specific elements place disproportionate obligations on SMEs.

Regulation ambiguity, complexity, and inconsistency disproportionately harm SMBs. Typically, SMEs are less effective than large companies at examining the regulatory environment and addressing pertinent standards (Haltiwanger, Jarmin & Miranda, 2013). SMEs frequently incur other indirect costs, such as paying for the expertise of external advisers or investing staff training to

 doi:10.20944/preprints202305.1748.v1

comply with new requirements, because they may lack information or skills in-house. As a result, SMEs should pay special attention to the complexity of regulatory processes and requirements for regulatory compliance. One explanation for the prevalence of informality in some nations is administrative costs that enterprises, especially small ones, find difficult to manage (OECD, 2015a).

Divergence in regulatory requirements between nations can also make it more challenging for SMEs to participate in global marketplaces and GVCs. Ineffective insolvency procedures restrict company dynamism, viable enterprises' ability to restructure, and SMEs' access to external financing. Reduced incentives for the effective exit of less productive enterprises and the reallocation of resources to more productive purposes are caused by bankruptcy regulations that overly penalize or stigmatize failure (Heyman, Norbäck & Persson, 2018). The penalty for individual defaulters is quite harsh in several nations when it comes to unincorporated micro and small businesses, leaving full personal accountability for many years after the business has been liquidated (Bergthaler et al., 2015). Long and difficult processes can negatively impact small business owners' capital and reputation, thus reducing their chances of beginning a business again. Legal uncertainty also increases the risk for lenders and limits the availability of financing for SMEs (OECD, 2017a).

Public sector integrity and transparency, public administration efficiency

A fair playing field depends on the honesty and transparency of the public sector, the effectiveness of public administration, and the standard of public services. Companies engage in a variety of interactions with the government, whose honesty, openness, and effectiveness have an impact on the development and expansion of businesses (Huber, Oberhofer & Pfaffermayr, 2017). For SMEs compared to large businesses, the costs of administrative hassles and red tape are comparatively higher. Additionally, while a lack of transparency and corruption in the public sector hurt all businesses, they particularly hurt SMEs because they frequently lack the resources to deal with an opaque public sector (Huber et al., 2017), develop and put into practice anti-corruption strategies. It advocate for their needs in the absence of a set framework for participation in public decision-making.

The ability to access strategic resources is critical for SME competitiveness

Small and medium-sized enterprises (SMEs) may face specific obstacles and market failures that limit their ability to access critical resources like funding, management capacity and skills, and knowledge networks, which puts them at a competitive disadvantage in the global and digitalized economy (Krammer, Strange & Lashitew, 2018). Many demand- and supply-side barriers make it difficult for many start-ups and SMEs to acquire financing in the right forms. SMEs and start-ups typically have limited access to credit due to failures in financial markets caused by asymmetric information and agency issues (Krammer et al., 2018). These businesses are frequently undercollateralized, have a limited credit history, and may lack the expertise necessary to produce sophisticated financial statements (OECD, 2013c). The need for policy involvement to address these shortcomings is well understood in this domain.

In mid- and low-income nations, where financial deficits are frequently the principal impediment to formalization and the growth of SME, credit restrictions are particularly severe. With the global financial crisis, credit conditions for many SMEs across OECD and non-OECD Members worsened, aggravating the consequences of long-standing issues like a lack of collateral and fixed costs for banks to process loan applications. Although if the cost of financing has been continuously declining in recent years, the difference between the average interest rates charged to small and large businesses has significantly increased since the pre-crisis period, indicating a higher credit risk for SMEs.

The sRecognition of financial needs

There is need to expand SME access to credit while also encouraging the diversification of their financing sources, acknowledging that financing requirements and constraints vary greatly across the company population and along the life-cycle of enterprises. In actuality, the majority of SMEs, especially fresh, inventive, and quickly expanding businesses, continue to rely primarily on internal resources and conventional bank financing. Contrary to major enterprises, small businesses are

 doi:10.20944/preprints202305.1748.v1

restricted from entering the market, making long-term investments, expanding, and innovating due to a lack of suitable forms of financing, particularly of the equity variety (OECD, 2015d). A mixture of demand-side constraints, most notably limits in financial expertise, strategic vision, resources, and occasionally even the willingness or awareness, prevent the availability of bank loans and alternative sources of credit to successfully attract sources.

This is in addition to supply-side obstacles like the SME finance market's overall opaqueness, the lack of investor exit options, ongoing regulatory obstacles like those preventing the expansion of the investor base to include retail and institutional investors, and the costs of regulatory compliance (OECD, 2016d). SME productivity and innovation are constrained by a lack of skills, inadequate management, and staff training. Inadequate internal management procedures, a lack of staff training, and a lack of skills are all factors preventing SME involvement in the knowledge-based economy. Evidence suggests that SMEs have greater skill gaps than large businesses, and SME training efforts are generally far weaker per employee than those of larger businesses (OECD, 2013b).

SMEs frequently struggle to find and keep highly qualified employees and employees with the necessary abilities, and they have more trouble finding employees with in-demand talents on the job market. SMEs also seem to be lagging behind when it comes to forming partnerships with educational and training institutions and implementing company-level learning strategies, that is, employing managerial techniques and approaches that encourage autonomy and learning (OECD, 2015b). The adoption of digital technologies and their efficient usage to increase productivity and gain access to markets are also constrained by a lack of investment in this sector. Moreover, Businesses and entrepreneurs may find it difficult to adapt to and participate more fully in the "new world of work" brought on by increased digitalization and industrial process fragmentation if they lack entrepreneurial abilities.

Business transfer and management transition processes are complicated in many SMEs, especially family businesses, because of poor management practices and a lack of an acceptable corporate governance structure. Financing restrictions, legal impediments, paperwork requirements, tax loads, and tiny transfer markets can occasionally exacerbate managerial limits. In many nations, especially those where the entrepreneur population is aging quickly, this is an increasing policy concern; nevertheless, policy action is hampered by the paucity of data on business transfers in many areas.

Concluding Remarks Policy Implementation

By providing a thorough framework, an OECD Strategy for SMEs would add value by identifying key levers for increasing SME contributions to sustainable and equitable growth. It would also offer recommendations to enhance policy-making in Members and Non-Members and establish benchmarks for gauging progress. This framework would also include specific issues that have been determined to be crucial for SMEs in a globalized and digital economy. In this sense, an OECD strategy would assist nations in creating their own plans that are suited to national settings, conditions, and company kinds.

Additionally, it would build on the expertise accumulated via involvement in the creation and execution of SME initiatives at the supranational and national levels. It would try to provide more convincing evidence, such as addressing SME data gaps.

References

Anderson, B. S., & Eshima, Y. (2013). The influence of firm age and intangible resources on the relationship between entrepreneurial orientation and firm growth among Japanese SMEs. *Journal of Business Venturing*, 28(3), 413–429.

Andersson, M., & Noseleit, F. (2011). Start-ups and employment dynamics within and across sectors. *Small Business Economics*, 36(4), 461–483.

Aparicio, S., Urbano, D., & Audretsch, D. (2016). Institutional factors, opportunity entrepreneurship and economic growth: Panel data evidence. *Technological Forecasting and Social Change*, 102, 45–61.

Audretsch, D. B., Coad, A., & Segarra, A. (2014). Firm growth and innovation. *Small Business Economics*, 43(4), 743–749. doi: 10.1007/s11187-014-9560-x

 doi:10.20944/preprints202305.1748.v1

Ayyagari, M., Demirguc-Kunt, A., & Maksimovic, V. (2014). Who creates jobs in developing countries? *Small Business Economics*, 43(1), 75–99.
Barbieri, L., Piva, M., & Vivarelli, M. (2016). *R&D, embodied technological change and employment: Evidence from Italian microdata*. IZA Discussion Paper No. 10354.
Baumol, W. (2002), *The Free-Market Innovation Machine: Analyzing the Growth Miracle of Capitalism*, Princeton University Press, Princeton.
Bergthaler W., Kang K., Liu Y., and D. Monaghan (2015), "*Tackling Small and Medium Sized Enterprise Problem Loans in Europe*", IMF Staff Discussion Note, March 2015, International Monetary Fund, https://www.imf.org/external/pubs/ft/sdn/2015/sdn1504.pdf.
Beverelli C., M. Kukenova and N. Rocha (2011), "*Are you experienced? Survival and Recovery of Trade Relations after Banking Crisis*", WTO working paper series N. 2011-03, World Trade Organization.
BIAC, B20 China, World SME Forum, SME Finance Forum (2016), Financing Growth; SMEs in Global Value Chains, http://biac.org/wp-content/uploads/2016/06/Financing-Growth-SMEs-in-GlobalValue-Chains.pdf.
Blanchard, O., Amighini, A., & Giavazzi, F. (2010). *Macroeconomics. A European Perspective*. Harlow, UK: Pearson.
Botric, V. (2012). Regional differences in self-employment: Evidence from Croatia. *Economic Research-Ekonomska Istraživanja,* 25(sup1), 243–266.
Calvino, F., & Virgillito, M. E. (2018). The innovation-employment nexus: A critical survey of theory and empirics. *Journal of Economic Surveys*, 32(1), 83–117.
Carbon Trust (2013), Low carbon entrepreneurs: The new engines of growth, https://www.carbontrust.com/resources/reports/technology/low-carbon-entrepreneurs/.
Coad, A., Segarra, A., & Teruel, M. (2016). Innovation and firm growth: Does firm age play a role? *Research Policy*, 45(2), 387–400.
COMCEC (2013), Promoting the SMEs Exports in the OIC Member Countries, Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC).
Dogan, E., Qamarul Islam, M., & Yazici, M. (2017). Firm size and job creation: Evidence from Turkey. *Economic Research-Ekonomska Istraživanja,* 30(1), 349–367.
Du, J., & Temouri, Y. (2015). High-growth firms and productivity: Evidence from the United Kingdom. *Small Business Economics, 44(1), 123–143.*
EaP GREEN (2016), *Environmental Policy Toolkit for Greening SMEs in the EU Eastern Partnership countries, OECD report as part of the EU-funded EaP GREEN project*, http://www.oecd.org/env/outreach/Greening-SMEs-policy-toolkit-eng.pdf.
Eichfelder S. and F. Vaillancourt (2014), "Tax Compliance Costs: A Review of Cost Burdens and Cost Structures", *Hacienda Pública Española,* vol. 210, issue 3, pages 111-148.
Enaifoghe, A.O. & Vezi-Magigaba, F.N. (2022). Rethinking The Sustainability Of Local Economic Development: Entrepreneurship In South Africa. *Expert Journal of Business and Management Vol*. 10(2)pp. 77-90
Enaifoghe, A.O., Aina, O. A., and Durokifa, A.A. (2021). "South Africa's Economic Progress and Government's Efforts to Achieve Long-Term Economic Growth" *International Journal of Development and Sustainability*, Vol. 10 No. 7,
Erdin C, Ozkaya G. (2020). Contribution of small and medium enterprises to economic development and quality of life in Turkey. *Heliyon.* 2020 Feb 3;6(2):e03215.
ETLA (2015), *From Cleantech to Cleanweb. The Finnish Cleantech Space in Transition*, ETLA Paper No 43, ETLA – The Research Institute of the Finnish Economy, https://www.etla.fi/wpcontent/uploads/ETLA-Raportit-Reports-43.pdf.
EU (2016), *Social Enterprises and their Eco-systems: Developments in Europe, European Commission*, Luxembourg: Publications Office of the European Union.
EU/OECD (2016), Policy Brief on Scaling the Impact of Social Enterprises, European Union and OECD, http://www.oecd.org/cfe/leed/Policy-brief-Scaling-up-social-enterprises-EN.pdf.
European Commission. (2018). *Employment and Social Developments in Europe.* Luxembourg: Publication Office of the European Union.
Eurostat (2014), Patent Statistics at Eurostat. Mapping the contribution of SMEs in EU patenting. *Eurostat Manuals and Guidelines*, Luxembourg, http://ec.europa.eu/eurostat/documents/3859598/6064260/KS-GQ-14-009-EN-N.pdf/caa6f467-11f843f9-ba76-eb3ccb6fab6d.
Eurostat. (2018a). Small and medium-sized enterprises. Retrieved from https://ec.europa.eu/eurostat/web/structural-business-statistics/structural-business-statistics/sme

Haltiwanger, J., Jarmin, R. S., & Miranda, J. (2013). Who creates jobs? Small versus large versus young. *Review of Economics and Statistics*, 95(2), 347–361.
Heyman, F., Norbäck, P. H., & Persson, L. (2018). Who creates jobs and who creates productivity? Small versus large versus young versus old. *Economics Letters*, 164, 50–57.
Huber, P., Oberhofer, H., & Pfaffermayr, M. (2017). Who creates jobs? Econometric modeling and evidence for Austrian firm level data. *European Economic Review, 91*, 57–71.
IBRD (2010), *Trade Adjustment Costs in Developing Countries: Impacts, Determinants and Policy Responses, International Bank for Reconstruction and Development/The World Bank*, Washington D.C.
IBRD (2014), *Building competitive green industries: the climate and technology opportunity for developing countries, International Bank for Reconstruction and Development/The World Bank*, Washington D.C.
IFC (2010), *Scaling-Up SME Access to Financial Services in the Developing World, International Finance Corporation, World Bank Group*, Washington D.C., http://www.enterprise-development.org/wpcontent/uploads/ScalingUp_SME_Access_to_Financial_Services.pdf.
Krammer, S. M. S., Strange, R., & Lashitew, A. (2018). The export performance of emerging economy firms: The influence of firm capabilities and institutional environments. *International Business Review*, 27(1), 218–230.
Mazur, E. (2012), "*Green Transformation of Small Businesses: Achieving and Going Beyond Environmental Requirements*", OECD Environment Working Papers, No. 47, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/5k92r8nmfgxp-en.
Muller, P., Julius, J., Herr, D., Koch, L., Peycheva, V., & McKiernan, S. (2017). *Annual report on European SMEs (2016/2017*). Luxembourg: European Commission. doi: 10.2873/742338.
OECD (2009), *Promoting Pro-Poor Growth: Employment*, OECD Publishing, Paris.
OECD (2010a), *SMEs, Entrepreneurship and Innovation*, OECD Publishing, Paris.
OECD (2010b), *High-Growth Enterprises: What Governments Can Do to Make a Difference, OECD Studies on SMEs and Entrepreneurship*, OECD Publishing, Paris.
OECD (2013a), *Green entrepreneurship, eco-innovation and SMEs, OECD Working Party on SMEs and Entrepreneurship*, CFE/SME(2011)9/FINAL.
OECD (2013b), *Skills Development and Training in SMEs*, OECD Publishing, Paris
OECD (2013c), *SME and Entrepreneurship Financing: The Role of Credit Guarantee Schemes and Mutual Guarantee Societies in supporting finance for small and medium-sized enterprises*, OECD Working Party on SMEs and Entrepreneurship, CFE/SME(2012)1/FINAL
OECD (2015a), *Policy Framework for Investment 2015 Edition*, OECD Publishing, Paris.
OECD (2015b), *Skills and learning strategies for innovation in SMEs, Working Party on SME and Entrepreneurship*, CFE/SME(2014)3/REV1.
OECD (2015c), *Taxation of SMEs in OECD and G20 countries*, OECD Publishing, Paris
OECD (2015d), *New Approaches to SME and Entrepreneurship Financing. Broadening the range of instruments*, OECD Publishing, Paris.
OECD (2016a), *The Productivity-Inclusiveness Nexus, Meeting of the OECD Council at Ministerial Level*, Paris, 1-2 June 2016 [C/MIN(2016)3].
OECD (2016b), *Entrepreneurship at a Glance 2016*, OECD Publishing, Paris.
OECD (2016c), "*No Country for Young Firms?*", Policy Note, Directorate for Science, Technology and Innovation Policy Note, June 2016.
OECD (2016d), *Fostering Markets for SME finance: matching business and investor needs*, OECD Working Party on SMEs and Entrepreneurship, CFE/SME(2016)4/REV1
OECD (2016e), *Job creation and local economic development*, OECD Publishing, Paris.
OECD (2017a), *Small, Medium, Strong. Trends in SME Performance and Business Conditions*, OECD Publishing, Paris.
OECD (2017b), *Increasing productivity in small traditional enterprises: programmes for upgrading management skills and practices*, OECD Working Party on SMEs and Entrepreneurship, CFE/SME(2016)6.
OECD (2017c), *Entrepreneurship at a Glance 2017, OECD Publishing*, Paris, forthcoming.
OECD (2017d), "*Mapping SME Participation in Global Value chains in ASEAN*", OECD Working Party of the Trade Committee, TAD/TC/WP(2015)25/REV2/PART2.
OECD (2017e), *Government at a Glance 2017, OECD* Publishing, Paris, forthcoming.

 doi:10.20944/preprints202305.1748.v1

OECD (2017f), *Key Issues for Digital Transformation in the G20,* Report prepared for a joint G20 German Presidency/OECD conference, Berlin, 12 January 2017, https://www.oecd.org/g20/key-issues-fordigital-transformation-in-the-g20.pdf

OECD and World Bank Group (2015), *Inclusive Global Value Chains. Policy options in trade and complementary areas for GVC Integration by small and medium enterprises and low-income developing countries,* Report prepared for submission to G20 Trade Ministers Meeting, Istanbul, Turkey, 6 October 2015.

SEUK (2015), *Leading the World in Social Enterprises, State of Social Enterprise Survey Survey 2015, Social Enterprise* UK Publishing.

USITC (2014), *Trade Barriers That U.S. Small and Medium-sized Enterprises Perceive as Affecting Exports to the European Union*, United States International Trade Commission, Investigation No. 332-541, March 2014, https://www.usitc.gov/publications/332/pub4455.pdf.

Wagner J. (2015), *A survey of empirical studies using transaction level data on exports and imports*, CESIS Electronic Working Paper Series, Paper No. 416, The Royal Institute of Technology, Centre of Excellence for Science and Innovation Studies (CESIS), July 2015, https://static.sys.kth.se/itm/wp/cesis/cesiswp416.pdf.