BusinessatOECD

Looking for the New Normal 2.0

Business at OECD **(BIAC)**
Survey of SMEs and Entrepreneurs

June 2023

Established in 1962, *Business at OECD* (BIAC) is the officially recognized institutional business stakeholder at the OECD.

We stand for policies that enable businesses of all sizes to contribute to economic growth, sustainable development, and societal prosperity. Through *Business at OECD*, national business and employers' federations representing over 9 million companies provide perspectives to cutting-edge OECD policy debates that shape market-based economies and impact global governance. Our expertise is enriched by the contributions of a wide range of international sector organizations.

Introduction

Small and medium-sized enterprises (SMEs) and entrepreneurs have consistently faced significant challenges during recent global crises. It is imperative for governments to identify and understand the obstacles faced by SMEs to implement effective support measures. To inform government and business audiences of the current situation of SMEs and entrepreneurs, *Business at OECD* (BIAC)'s SME Committee conducted two surveys in 2022, titled "Looking for the New Normal" and "Energy Crisis Impact for SMEs," in response to the COVID-19 pandemic and the energy crisis, respectively. These reports examined the effects of these crises on SMEs and entrepreneurs and explored their endeavors to overcome these adversities.

The renewed "Looking for the New Normal 2.0" survey report aims to offer OECD Ministers and a broader audience insights into the recovery progress of SMEs, ahead of the OECD SME and Entrepreneurship Ministerial, taking place in June 2023. Additionally, it seeks to present valuable recommendations for decision-makers and policy practitioners regarding future challenges. The report outlines the adaptive policies taken up by SMEs to bolster their resilience in the face of uncertainty.

Business at OECD expresses its gratitude to its SME Committee members and stakeholders for their cooperation in facilitating the survey's distribution within their networks, ensuring a comprehensive data collection process.

Looking for the New Normal 2.0

Business at OECD (BIAC)
Survey on SMEs and Entrepreneurs
June 2023

Our key findings

SMEs and entrepreneurs seem to still feel the reverberating effects of the COVID-19 pandemic and the energy crisis in their business operations due to high input costs, inflation and market uncertainty.

At the same time, SMEs and entrepreneurs are primarily focused on developing their products and services, achieving growth and consolidating their businesses, marking a shift from their main focus on cost-saving and survival measures indicated in our survey in December 2022, at the onset of the energy crisis.

While the importance of resilience has been highlighted through many recent global crises, SMEs and entrepreneurs still lack the necessary support measures to confide in their abilities to withstand future shocks.

SMEs and entrepreneurs' pursuit of resilience and the increased attention toward the twin (digital and green) transition are reinforcing one another, as embedding themselves in a rapidly transitioning digital and green economy will be imperative for their survival.

For several different key objectives, such as building resilience, accelerating progress for the twin transition and navigating global value chains, SMEs and entrepreneurs believe that financial support of various forms and reduction of cumbersome administrative procedures will benefit them the most.

Our policy messages

The momentum towards SMEs and entrepreneurs' resilience must be kept, as seen by how global crises such as the COVID-19 pandemic and the energy crisis can have prolonged effects, benefiting from new trends.

SMEs and entrepreneurs, typically at the frontline of market disruptions, are often placed in a disadvantaged position and therefore require proactive support. Most importantly, improved access to financing and support for innovation development and technology uptake must be provided.

Support measures that increase SMEs and entrepreneurs' access to networks and partnerships are equally important, and can be vital in correcting disparities between them and bigger companies.

Administrative burdens bear high costs with regards to SMEs and entrepreneurs' survival and development; creative structural reforms must reduce the red tape and help SMEs and entrepreneurs flourish.

I. Overarching business climate

The overall business climate

SMEs and entrepreneurs seem to have moved past the more urgent, temporary challenges in their businesses, now focused more on development of products and services, achieving growth and consolidating their businesses (Figure 1).

Figure 1: What is your main business focus at the moment?

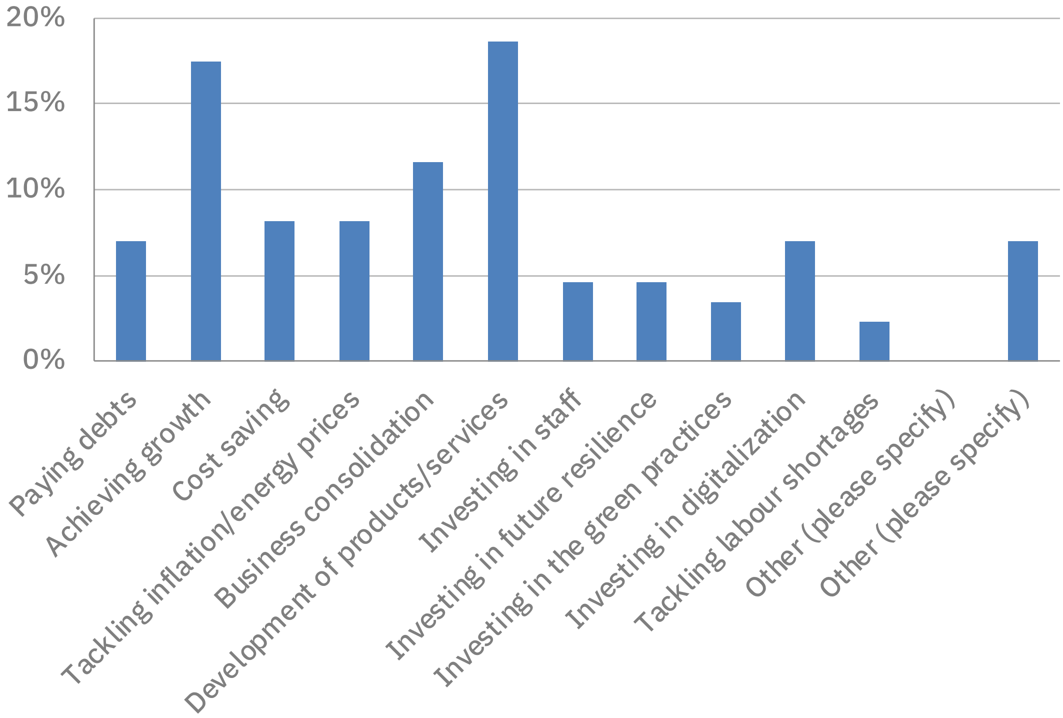
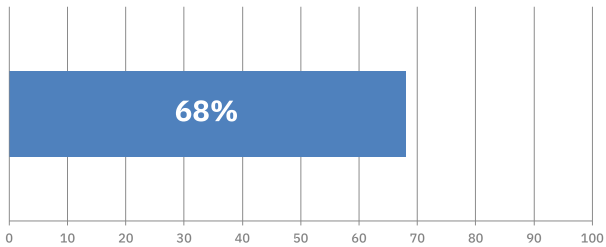
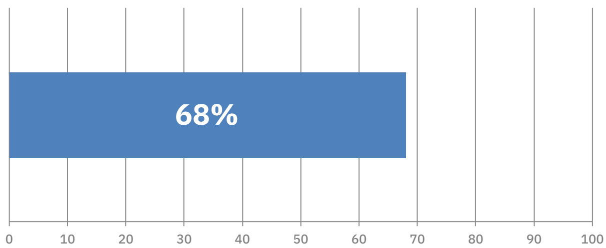


Figure 2: To which percentage would you say that the turnover of your business has recovered to pre-COVID operations?



Members report that on average, they have recovered up to 68% of pre-COVID business turnover and employment levels (Figures 2 and 3), indicating that while many pressures of the pandemic have cleared in the last few years, certain economic impacts may reverberate and full recovery is dependent on several different factors out of businesses' control.

Figure 3: To which percentage would you say that the employment of your business has recovered to pre-COVID operations?

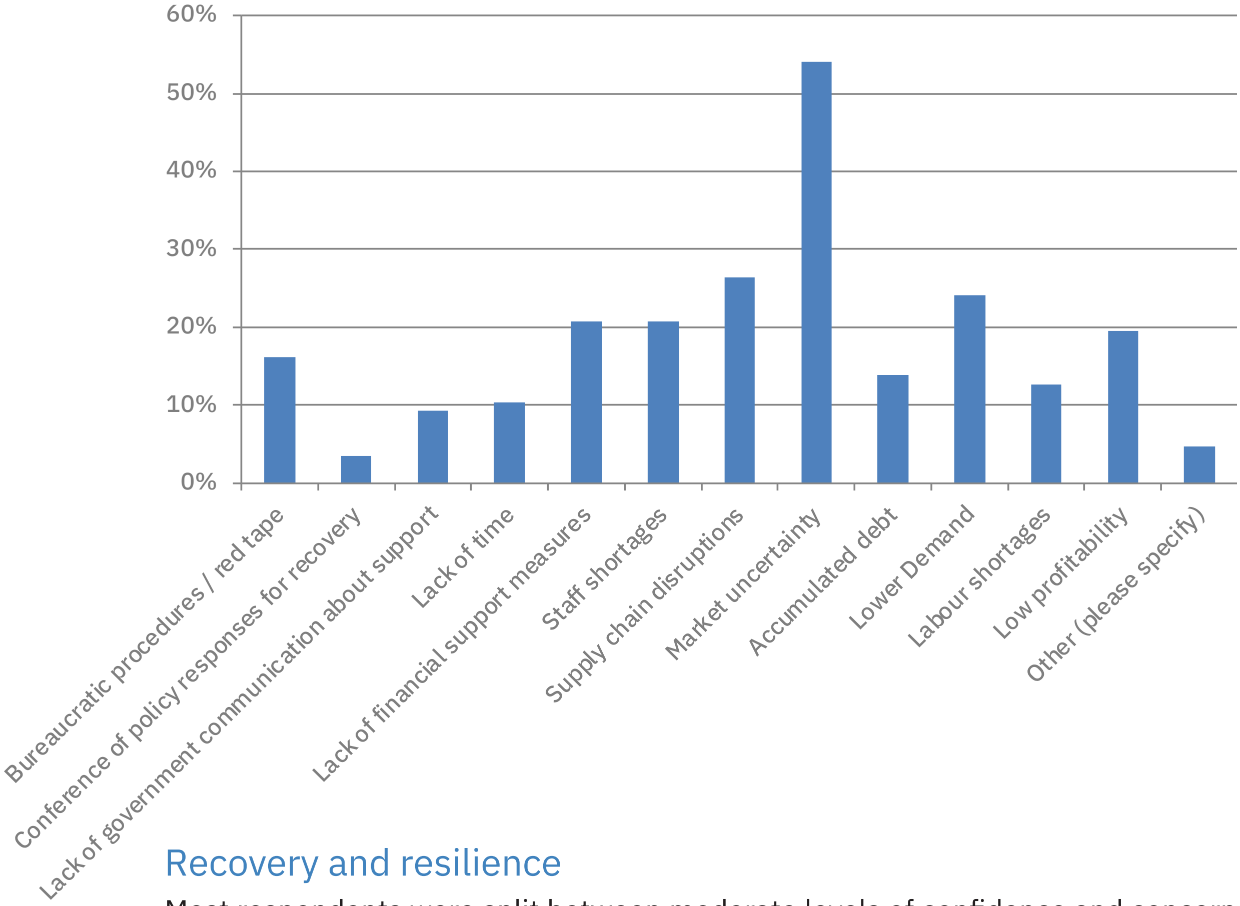


For our members, the biggest barriers to pre-COVID level recovery have been market uncertainty, which affects 1 in 2 SME owners and entrepreneurs, as well as supply chain disruptions and lower demand that affect 1 in 4 SME owners and entrepreneurs (figure 4).

Key challenges

High input costs are the most troubling challenge for SMEs at this time, closely followed by inflation caused by the energy crisis and lack of skilled labor (Figure 4). These findings are consistent with our survey results from December 2022, when the energy crisis was of the most relevant concern for SMEs and entrepreneurs.

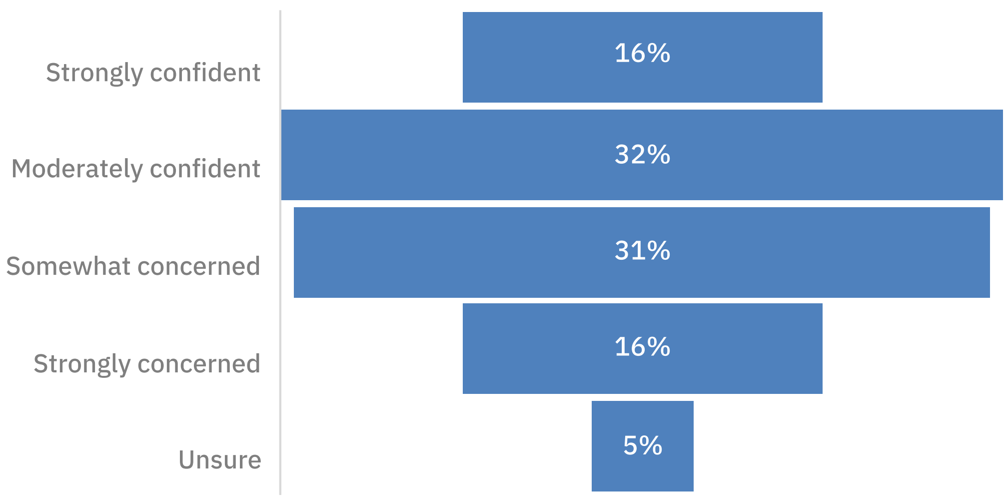
Figure 4: What is the biggest challenge facing your business at this time?



Recovery and resilience

Most respondents were split between moderate levels of confidence and concern when it comes to surviving yet another major crisis (Figure 5). A smaller percentage of respondents exhibited stronger levels of confidence or concern.

Figure 5: How confident are you that your business could survive through another major crisis if it occured in the future?



SMEs and entrepreneurs are adopting various methods to increase the resilience of their businesses or organizations. To that end, nearly half of our respondents intend to adopt digital technologies, and around a third to adopt product diversification (36%), cost savings (34%) and implementation of innovation strategies (33%) as ways to make themselves more resilient (Figure 6). With regard to needed government support for resilience, support for innovation and technology development were highlighted as their key concerns (Figure 7).

Figure 6: Which of the following strategies are you planning to adopt for making your organization more resilient?

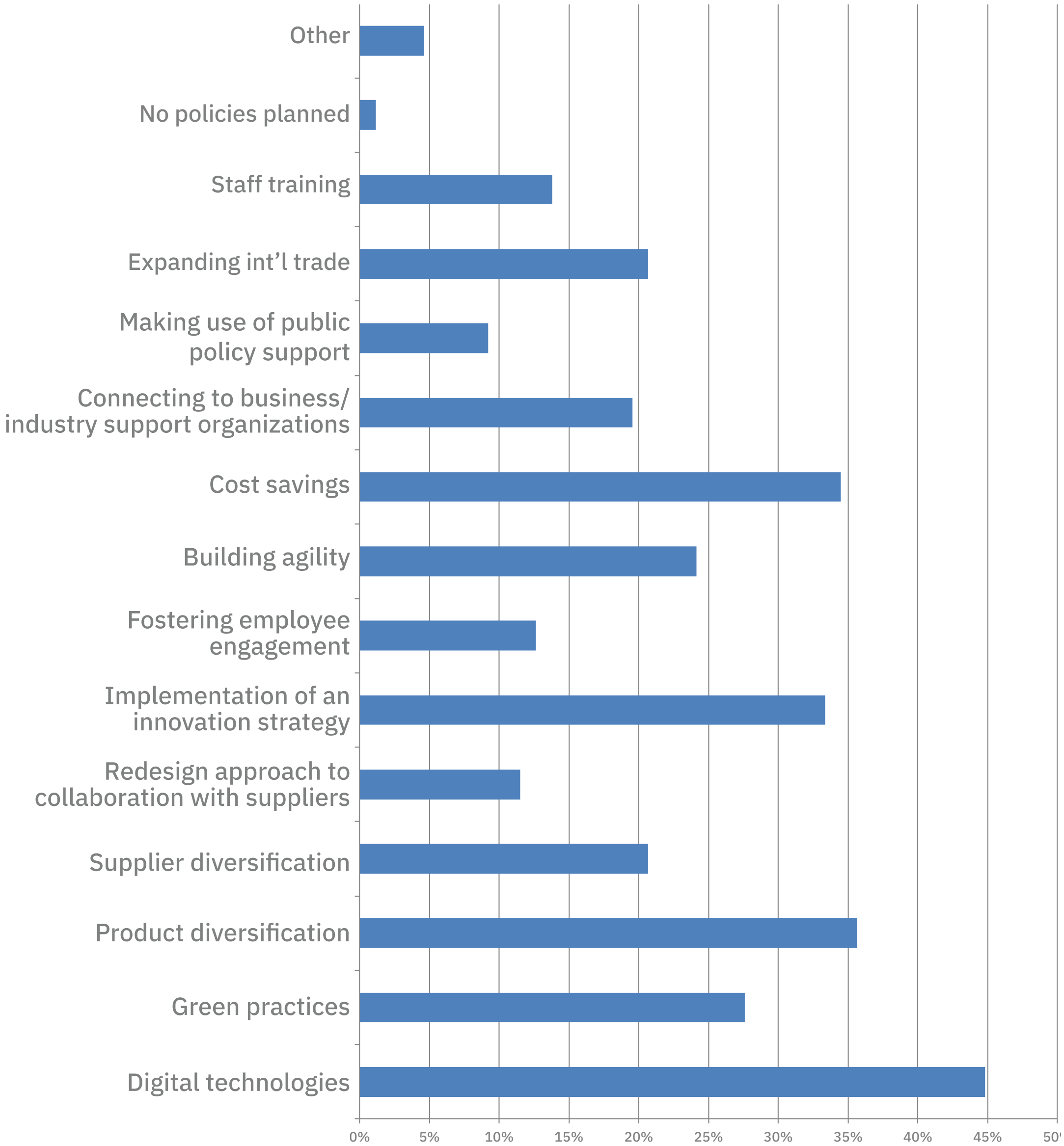
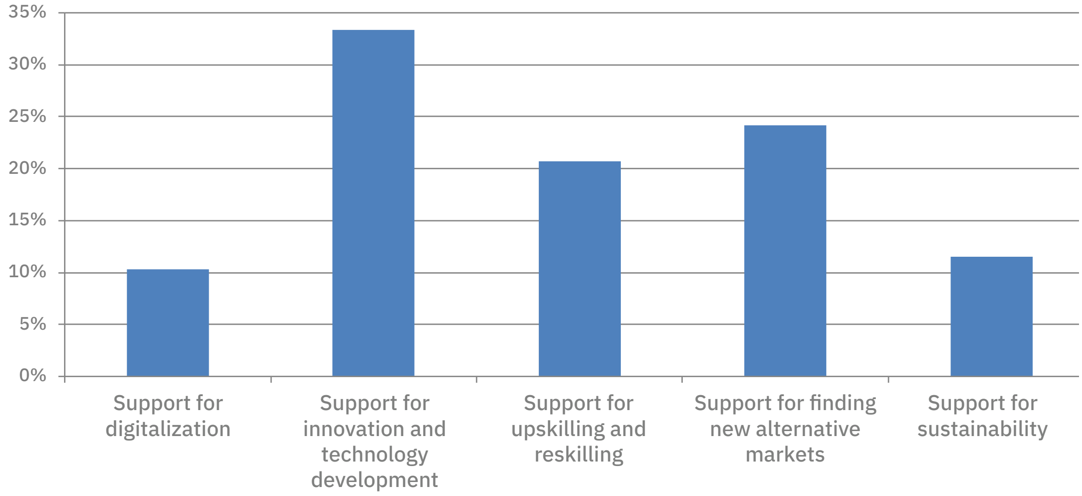


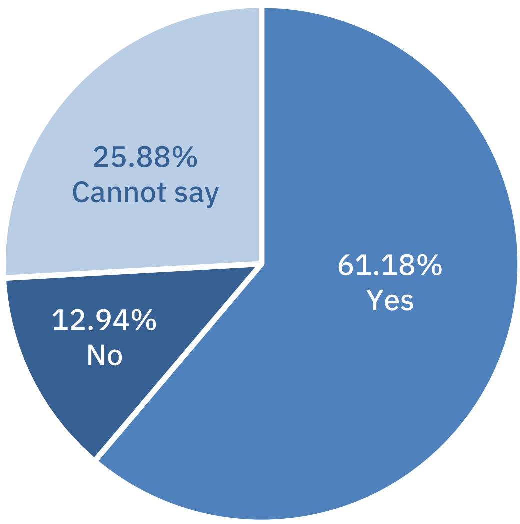
Figure 7: What support measure do you think is most important for governments to put in place to strengthen SMEs and entrepreneurs' resilience to face future shocks?



The preferences of our respondents toward innovation and technology development reflect the fact that 61% are convinced that the "data driven economy" will have an impact on their business operations (Figure 8).

Day by day, our economy becomes more reliant on data. As the collection, analysis, refinement and evaluation of such data places itself in the center of business strategy and decision-making for all sizes of businesses, it will be important for SMEs and entrepreneurs not to fall behind in the race for digitalization and innovation.

Figure 8: Do you think that the "data driven economy" will have an impact on your business?

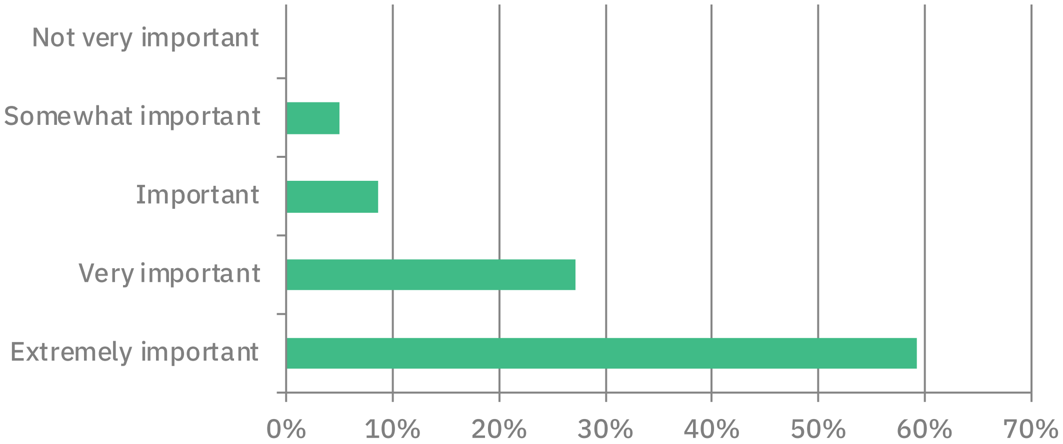


II. The well-being of SMEs and entrepreneurs, and the green & digital twin transition

The well-being of SMEs and entrepreneurs

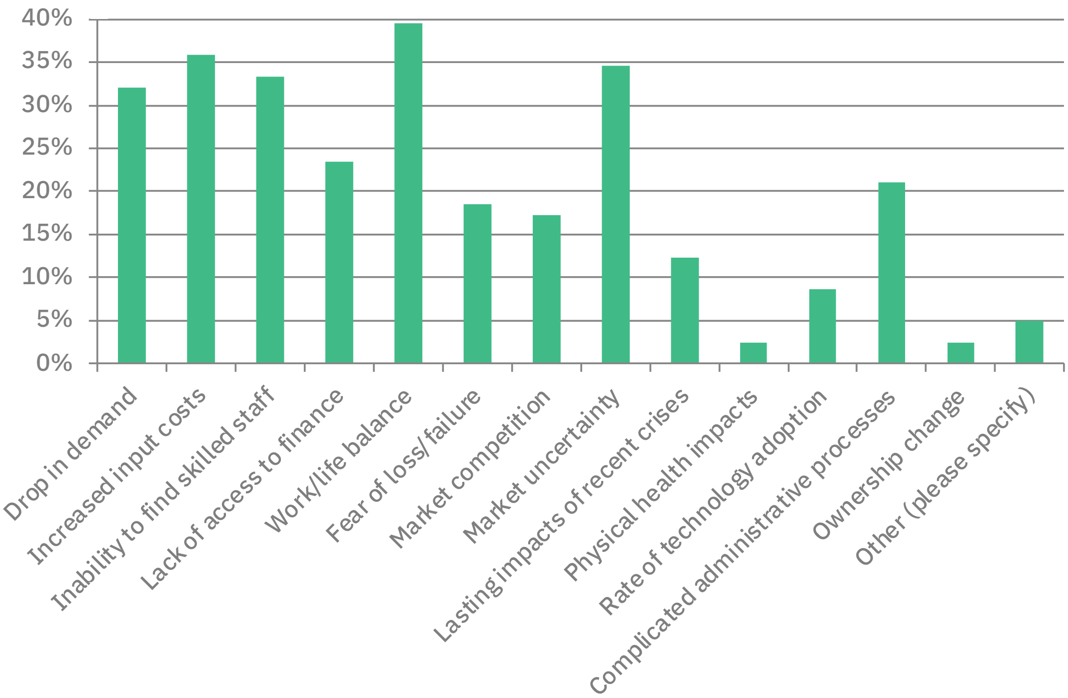
100% of respondents said that the mental health of their workforce is important to the success of their businesses, with 59% saying that it is extremely important and 27% saying that it is very important (Figure 9).

Figure 9: In your opinion, how important is the mental health of you and your workforce to the success of your business?



When asked which causes contribute most to stress, the most frequently cited answers were work/life balance (40%), increased input costs (36%), market uncertainty (35%) and inability to find skilled staff (33%) (Figure 10).

Figure 10: What are the main sources of stress for you as an entrepreneur or SME owner?



The green & digital twin transition

95% of SMEs and entrepreneurs believe that the twin transition and adopting related practices are elements for the success of their businesses (Figure 11).

Currently, the biggest barriers to undertaking such investments needed to become greener and more digital include a lack of financial resources (35%), low short-term return on investments (17%) and difficulty in applying such practices to ongoing business operations (14%) (Figure 12).

Figure 11: In your opinion, how important is the adoption of green and digital practices to the success of your business?

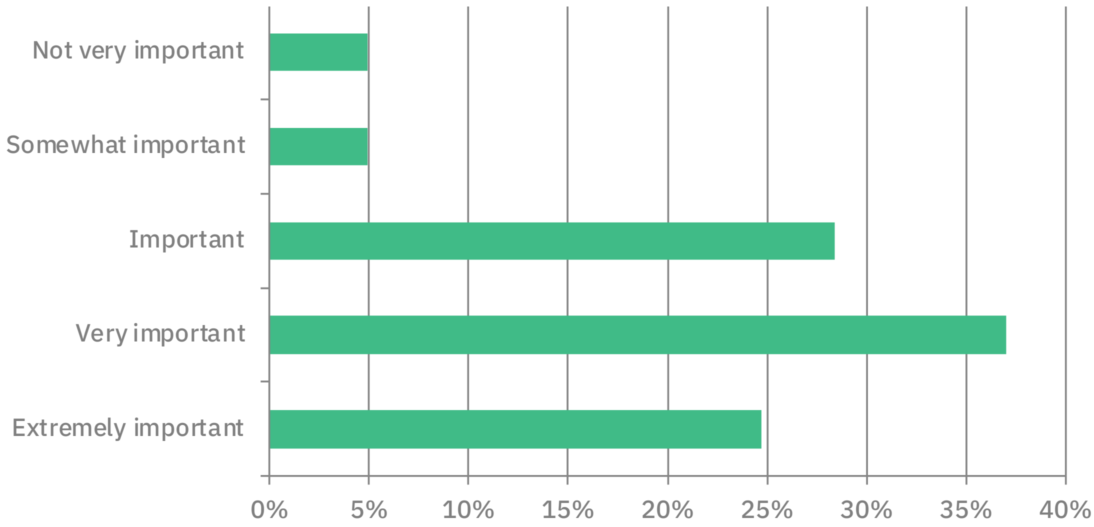
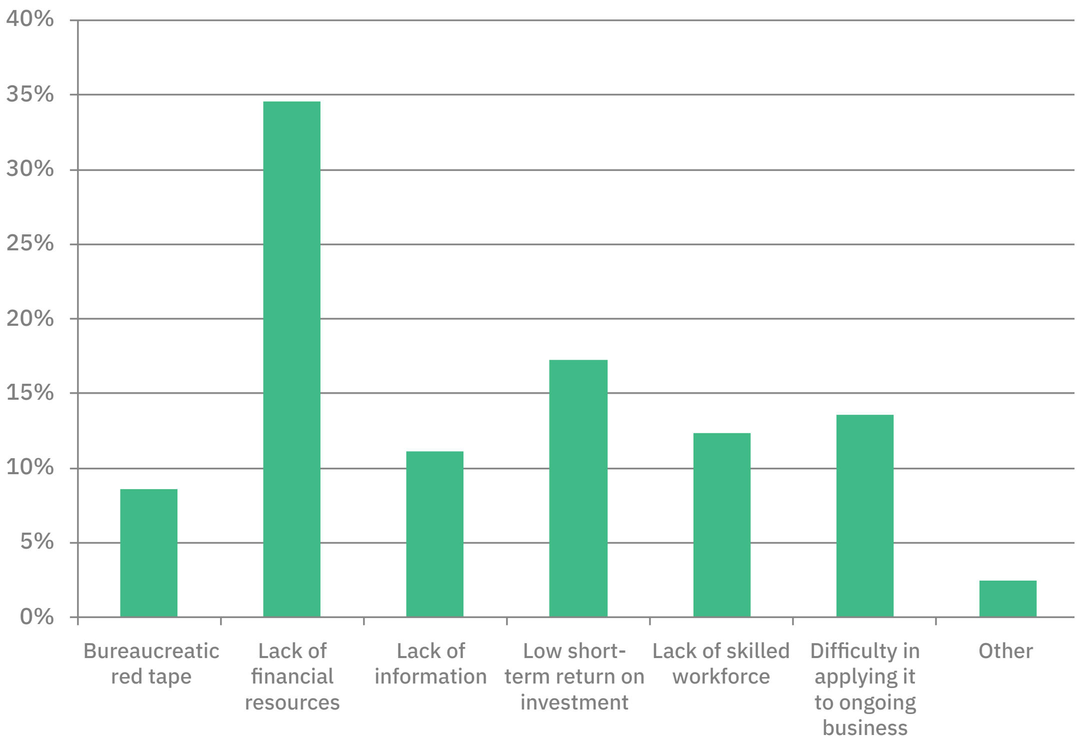


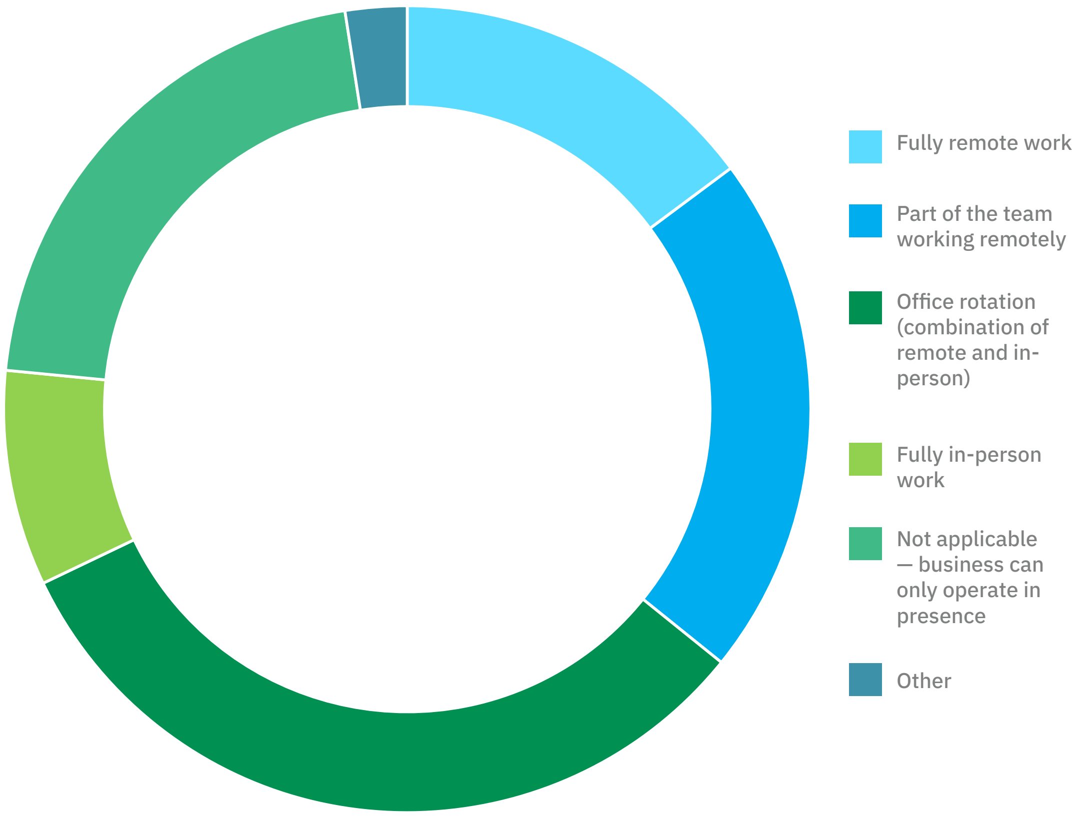
Figure 12: What is the biggest barrier to undertaking the investment needed to become greener and more digital?



Remote work

While for many SMEs and entrepreneurs, full presence in the office is an integral part of business, hybrid working opportunities have changed the way many of them operate. In this regard, 14% of respondents intend to continue fully remote work, 21% to have a part of the team work remotely and 32% to adopt an office rotation plan (Figure 13). 9% of respondents intended to resume full presence at the office despite remote work remaining an available option for their business models.

Figure 13: For the foreseeable future, do you intend to continue applying remote working practices?

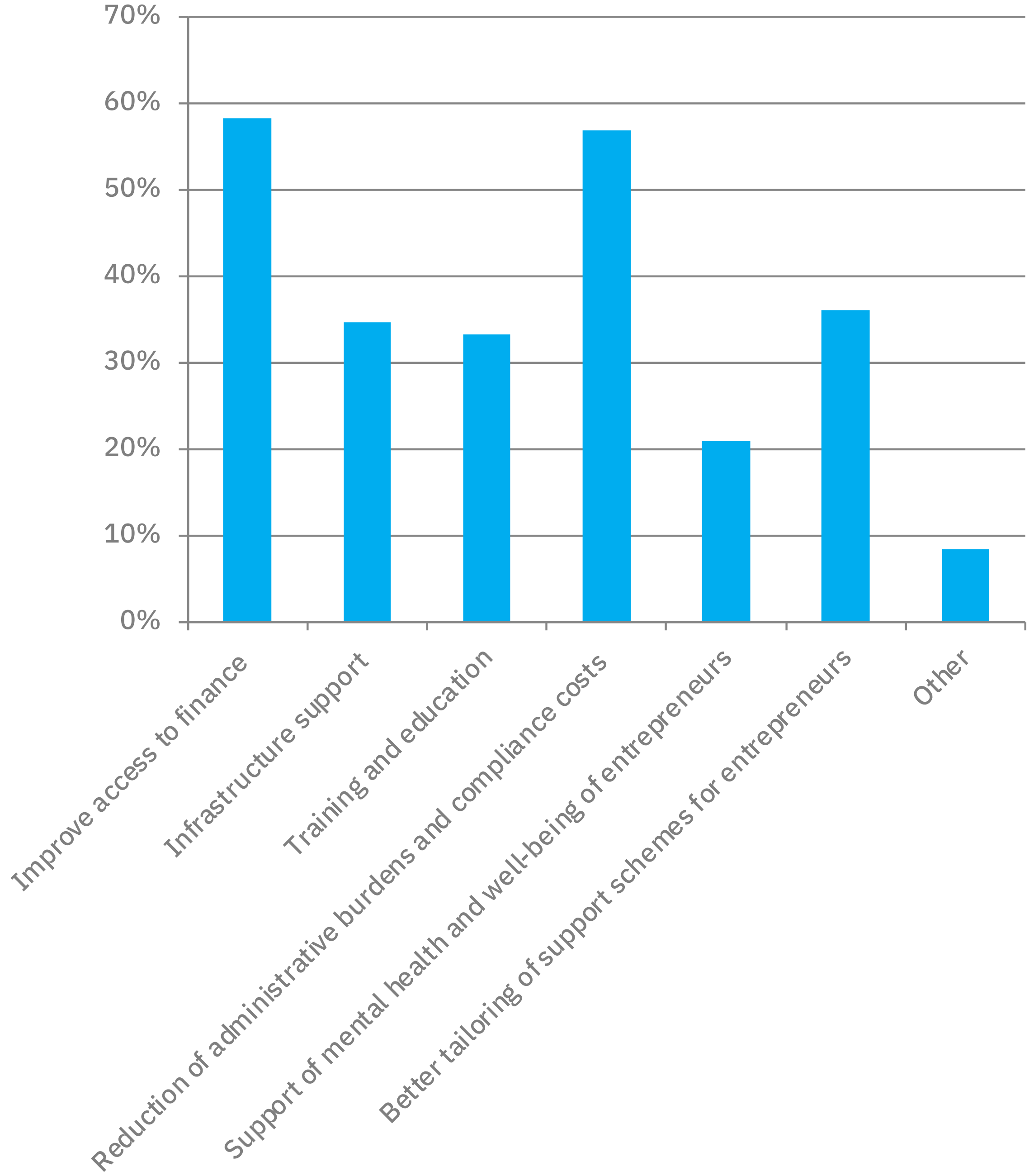


III. Priorities for the SME and Entrepreneurship Ministerial

In OECD countries, SMEs and entrepreneurs account for approximately 99% of all firms, 60% of jobs and over 50% of value added on average. Given their significance to our economies, it is essential for government actors to identify how they can support SMEs and entrepreneurs build resilience and manage shocks.

To support the recovery of SMEs and entrepreneurs, respondents indicated that improving access to finance, such as grants, credit guarantees, debt moratorium, lower loan interest rates, tax reliefs and lower taxes would be most helpful (Figure 14), followed by the reduction of administrative burdens and compliance costs through streamlining of administrative processes/simplified regulations.

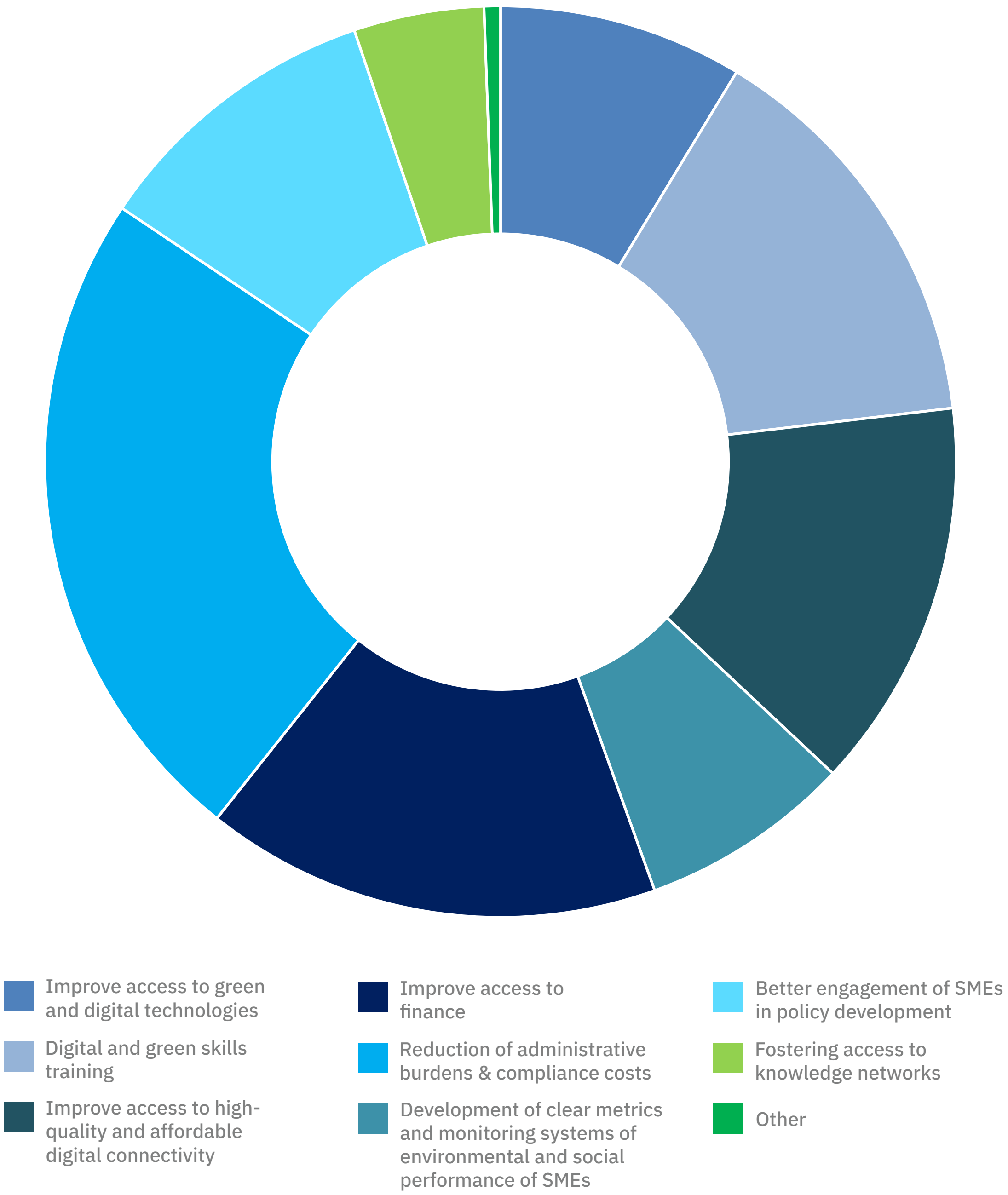
Figure 14: What priorities would you flag to Ministers to support the recovery of SMEs and entrepreneurs?



Additionally, roughly 1 in 3 SME owners/entrepreneurs believe that other measures including infrastructure support (such as broadband access, transportation, industrial parks, access to affordable energy), training and education (such as life-long learning programmes) and better tailoring of support schemes for entrepreneurs would aid a speedy recovery.

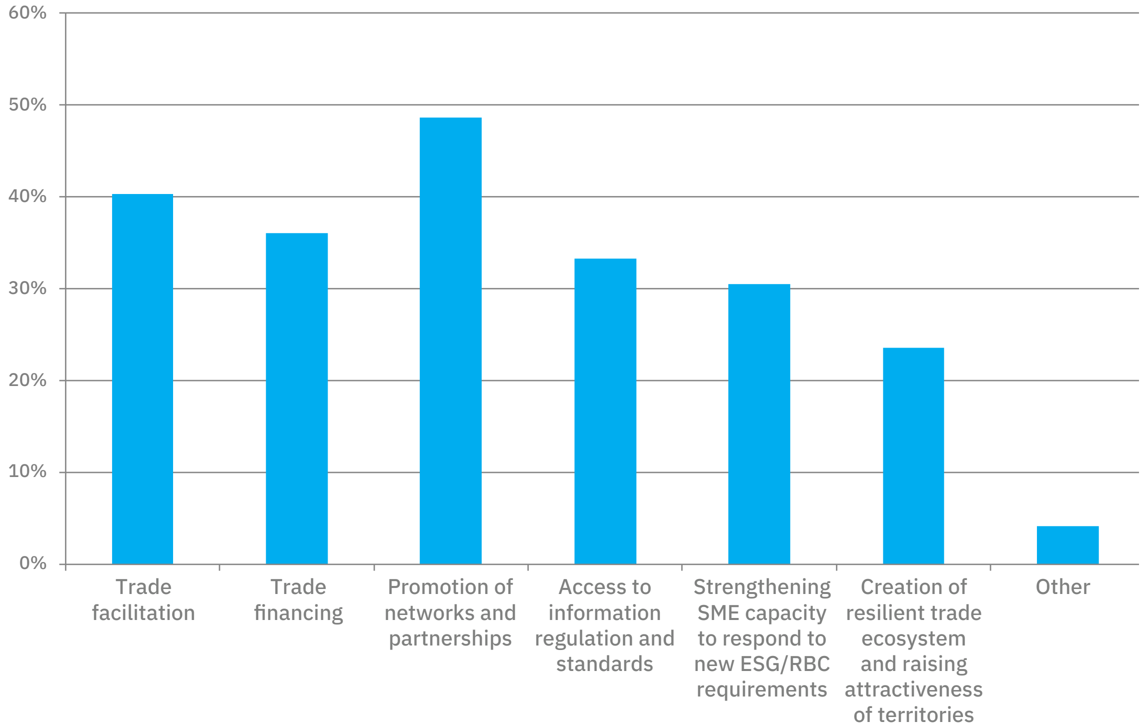
Regarding support toward SMEs and entrepreneurs' digital and green transition, the majority (57%) of respondents preferred the reduction of administrative burdens and compliance costs (e.g., through streamlining of administrative processes/simplified regulations to help SMEs navigate new ESG/GHG reporting requirements) the most, followed by improving access to finance for the adoption of digital and green solutions (including tax reliefs) (39%) and digital and green skills training (35%) (Figure 15).

Figure 15: What priorities would you flag to Ministers to support SMEs and entrepreneurs' digital and green transformation?



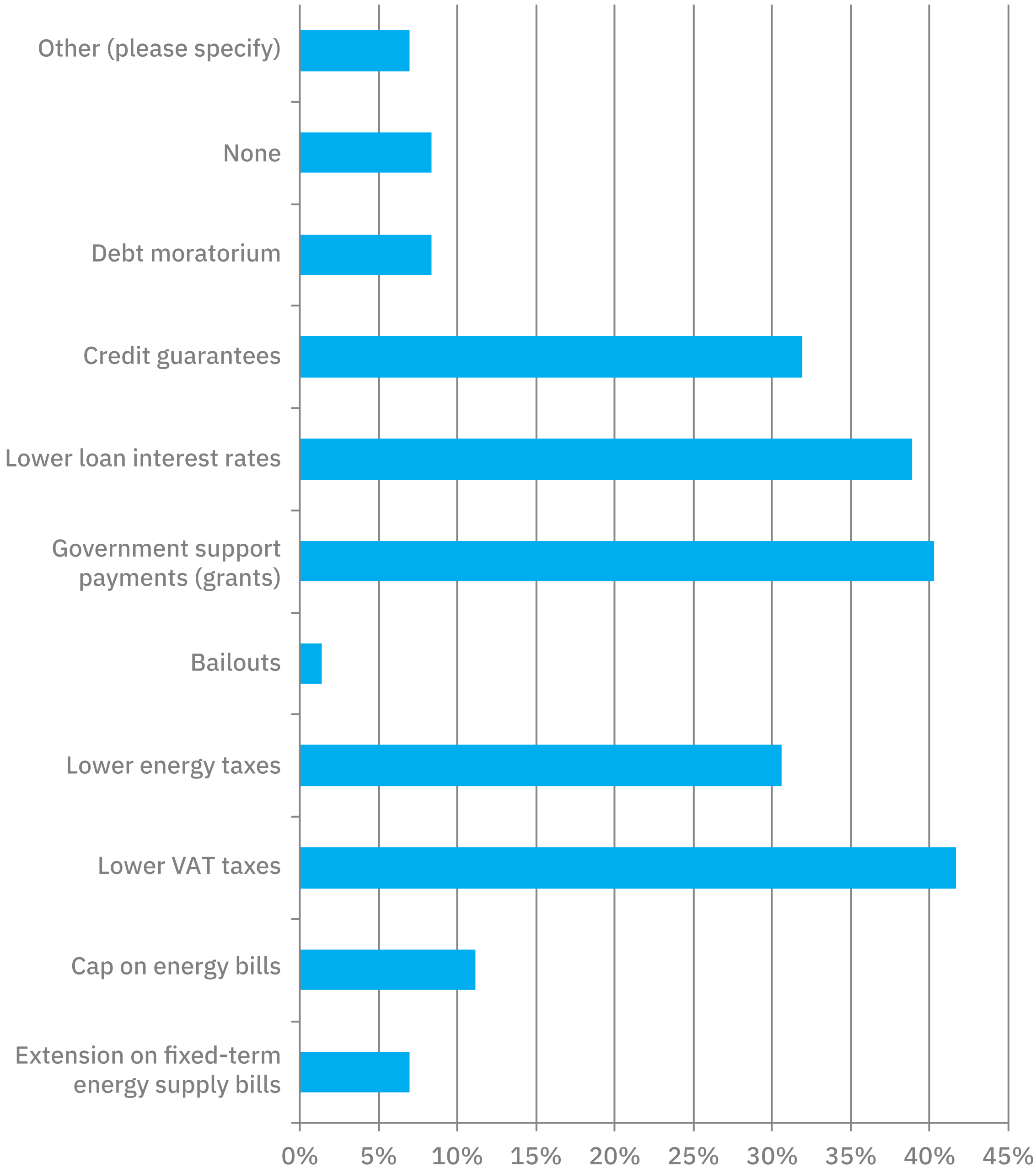
SMEs and entrepreneurs may often enter difficulties navigating the shifting value chains – while our globalized and digitalized economy enables companies to connect to more global value chains, at the same time, global crises may disrupt these trends. To facilitate access, nearly 1 in 2 respondents indicated that promotion of networks and partnerships (e.g., export matchmaking, trade fairs) and 40% of respondents specified that facilitation (finding market and partners abroad) would be helpful (Figure 16).

Figure 16: What priorities/support measures/mechanisms would you flag to Ministers to support SMEs and entrepreneurs' insertion into shifting and changing global value chains?



SMEs and entrepreneurs often suffer from long-standing challenges to appropriate sources of financing, such as information asymmetry, high transaction costs and lack of financial expertise. It is therefore imperative that government stakeholders realize how SMEs and entrepreneurs can be better assisted when pertaining to finances. Members reported that lower VAT taxes (42%), government support payments such as grants (40%) and lower loan interest rates (39%) would be the most helpful modes of financial support at the moment (Figure 17).

Figure 17: What kinds of financial support would be most useful to your business at the moment?



Methodological note

Our survey was launched in May 2023 and carried out between 11 May and 19 June 2023 among our global network of SME owners and entrepreneurs. This synthesis report was prepared in June 2023, following the structure of the survey. Given the rapid evolution of the economic situation and significant cross-country variation, it cannot be excluded that the different timings of member responses influence aggregate results.

In order to encourage respondents to freely put forth their respective views and priorities, it was decided to fully ensure the confidentiality of their responses by only communicating aggregate results. For the purposes of this synthesis report, the names of participating organizations and their responses have been anonymized.

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