



INCREASING PRODUCTIVITY IN SMALL TRADITIONAL ENTERPRISES: POLICY EXPERIENCES IN UPGRADING MANAGEMENT SKILLS AND PRACTICES

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Outline of the presentation

- Background information on the project
- Evidence on gaps in labour productivity by firm size
- Policy examples and policy implications



Background information on the project

- Recent strong emphasis on start-ups and high-growth firms, while much less attention to small established firms.
- The nexus between productivity growth and social inclusion is at the heart of OECD current work (i.e. slow productivity growth and rising income inequalities).
- Large potential impact on productivity growth and social inclusion from productivity upgrading in small enterprises (large number of people employed).
- Project's main question: what can be done to upgrade labour productivity at the firm level? Focus on management skills.



The existence of firm-level productivity gaps is well established

- Labour productivity gap (turnover per employee) between micro-enterprises (1-9) and larger SMEs (50-249) is wider in manufacturing (54%) than in services. Within services, the gap is wider in knowledge-intensive services such as IC (44%) than low-tech services such as accommodation and food (35%) (2013).
- There is some heterogeneity across countries, with productivity gaps in the 30%-50% range depending on country and industry.
- Labour productivity gaps have increased after the crisis, although there are some country exceptions (e.g. UK and Norway).

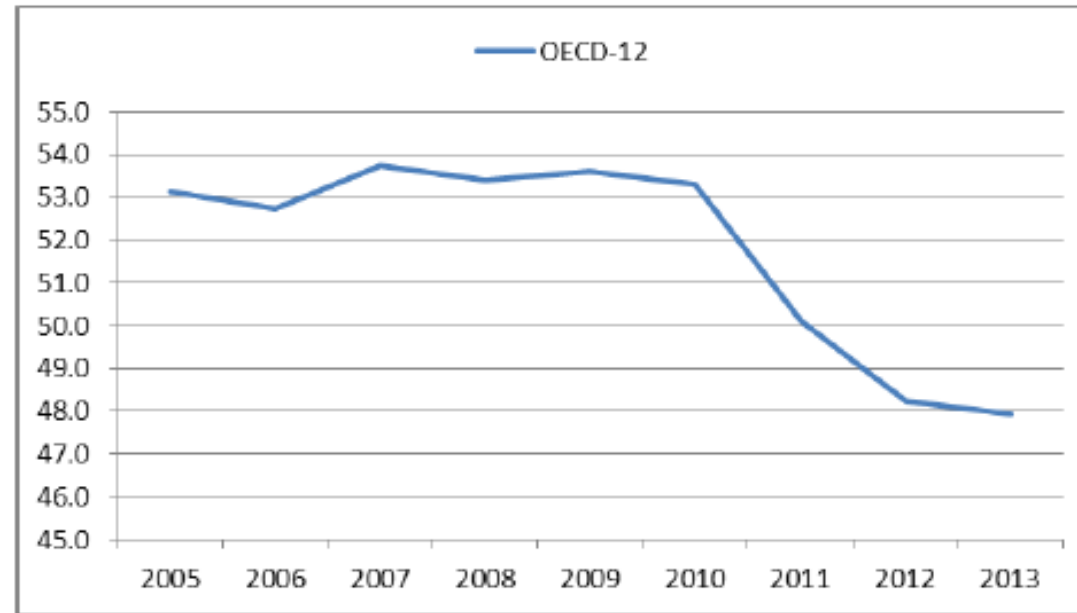
(Based on OECD SDBS)



Productivity gaps in the overall private-sector economy

Figure 1. Relative labour productivity (turnover per employee) of micro-enterprises compared to larger SMEs, Total business economy (industry, construction and market services), selected OECD economies, 2005-2013

Productivity of micro-enterprises (1-9 employees) as a percentage of productivity in larger SMEs (50-249 employees), simple average of 12 OECD countries



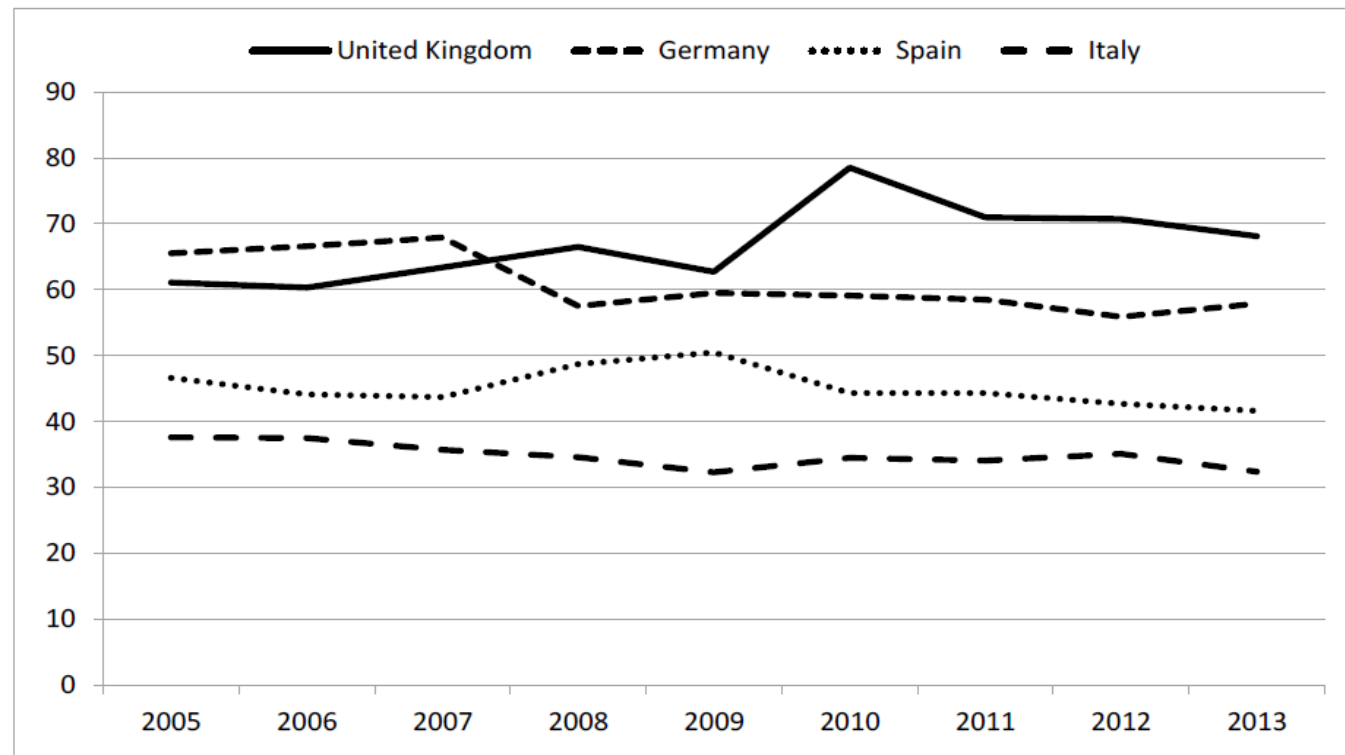
Note: Countries included in the analysis are Austria, Belgium, Czech Republic, Germany, Hungary, Italy, the Netherlands, Poland, Portugal, Slovenia, Spain and the United Kingdom. These are the countries for which it has been possible to calculate the full series for the period 2005-2013.



There is significant cross-country heterogeneity in productivity gaps

Figure 8. Relative labour productivity of micro-enterprises compared to larger firms in the business economy, illustrative examples, 2005-2013

Productivity of micro-enterprises (1-9 employees) as a percentage of productivity in larger firms (50-249 employees)



Source: Based on OECD SDBS database



Profiled programmes

In-depth case study programmes

- Mexico's INADEM programme for micro-enterprises
- Uruguay's ICT solutions for food retailers
- Canada's operational efficiency programme
- Malaysia's micro-enterprise breakout strategy
- Turkey's SME general support programme

Shorter programme descriptions

- Argentina, Chile, India, Mexico, Singapore, Malaysia, Korea, Belgium and Ireland.



Elements of the case-study programmes

1. Rationale and objectives of the programme
2. Programme activities
3. Programme delivery methods
4. Results achieved
5. Success factors and problems encountered
6. Conditions for transferability to other countries



Mexico's INADEM programme for micro-enterprises

- Participant profile: micro-enterprises (60% in retail)
- Six-hours mgmt. training on six key areas alongside provision of a tablet (electronic payments, utilities and phone payments)
- Budget of MXN 660 bn. (USD 34 m.) to reach over 70,000 firms (approx. USD 470 per participant) over 2015-2016.
- Strengths: innovative by combining ICT and advisory services; reaching a large number of firms; potential to reduce informality.
- Challenges: possible displacement effects in mature sectors.



Canada's Operational Efficiency (O.E.) Programme

- Participant profile: small enterprises (20-50 employees), mostly in manufacturing
- Objective: Increasing operational efficiency by benchmarking performance, identifying and eliminating causes of waste, monitoring progress against KPIs.
- Methodology based on site visits and interviews with managers and staff.
- Strengths: clear focus on operational efficiency; tailored intervention; involvement of the workforce in the process.
- Challenges: high cost per enterprise; high time commitment for managers.



Uruguay's ICT solutions for food retailers

- Participant profile: micro-enterprises in the food retail sector (e.g. restaurants and small supermarkets)
- Core activity: ICT solution allowing industry benchmarking at local level, together with training and advisory services.
- Strengths: combination of different elements; flexibility through the offer of optional activities; long-term sustainability (through cost-recovery).
- Challenges: small technical assistance project (500 firms over 3 years); high risk of displacement effects.



Malaysia's micro-enterprise breakout strategy

- Comprehensive strategy consisting of 35 initiatives under 5 pillars: Start-ME-up; Grow-ME; Market-ME; Fast-track-ME; ME-Money-matter.
- Main objective: increase productivity by helping micro-enterprises to become more formal.
- Strengths: Multifaceted approach to productivity growth; close combination of economic and social dimensions (e.g. informality and target groups).
- Challenges: strategy possibly too ambitious (first two pillars ahead of the others); some policy approaches unusual for micro-enterprises (e.g. Fast-track-ME).



Turkey's SME general support programme

- General programme for low-skilled small business owners comprising 15 different sub-schemes.
- Five sub-schemes more closely linked to mgmt. upgrading: support for consultancy, training, intl. certification, hiring of qualified staff, volunteer specialist.
- Strengths: large programme (USD 47 million and 21,000 firms per year); simple operational rules; large freedom of choice.
- Challenges: reliance only on one single instrument (grants) and limited evidence on impact.



Main policy implications

- Combination of mgmt. training, advisory services and ICT solutions can help pump-prime productivity growth in small enterprises.
- Keeping per-enterprise costs low and programme activities simple is key to reaching a large number of participants (but adequate budget needs to be attached).
- Subsidies should be expected to attract cash-constrained firms unfamiliar with government support (though partial cost-recovery can be envisaged).
- Drawing on experienced private-sector intermediaries can help achieve stronger impacts in programme implementation.
- Evaluation is key to assessing whether programmes are achieving their objectives and delivering value for money.



Conclusions

- Upgrading productivity in small established enterprises is important given the large number of people they employ.
- There are some emerging policy approaches that can tackle the issue at large scale and low cost per unit.
- Productivity growth in general and productivity in SMEs in particular have high priority in the work of the OECD.