ACCOUNTANTS FOR BUSINESS

Small business: a global agenda

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

ABOUT ACCOUNTANTS FOR BUSINESS

ACCA's global programme, Accountants for Business, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

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This paper reviews small and medium-sized enterprises and their needs for the benefit of those involved in the design of policy, regulation and business support around the world.

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Introduction

WHY SMES?

Appropriately, much of ACCA's work deals with large organisations in the financial, corporate and public sectors. Entire industries exist solely to produce, disseminate and interpret information about these sectors, and their needs are considered by policy-makers from the local to the global level. Information on small, private enterprises, however, is much harder to come by, more localised, and nowhere near as reliable or actionable.

As the accountancy body most closely aligned to the small and medium-sized enterprise (SME) sector, ACCA is uniquely placed to take an evidence-based, global approach to the needs of SMEs, guided by three long-term strategic concerns.

1. Understanding the needs of SMEs can help ACCA to better serve its customers.
As a membership organisation, ACCA understands the crucial role of SMEs in generating employment for professional accountants. Most of ACCA's membership either works for or advises SMEs in a professional capacity; and its members have a long history of supporting small businesses. Moreover, accountants in practice are very often small-business owners themselves and a better understanding of the needs of SMEs can help ACCA provide them with adequate support.

ACCA also works with a wide range of policy-makers and regulators across markets, who can often find it difficult to engage with very small enterprises. Giving governments the opportunity to work with or through influential advisers such as accountants, can lead to the development of better policies and to their successful implementation. As a professional body, ACCA is itself a regulator and the majority of organisations under its remit are SMEs. Proportionate regulation, designed with the needs of the smallest businesses in mind and coupled with adequate support, can achieve not only compliance but genuine good practice.

2. Supporting SMEs is essential to fulfilling ACCA's wider purpose.
ACCA's interest in SMEs goes beyond commercial considerations. Some of the core ACCA values, namely diversity, innovation and opportunity, can be furthered substantially by supporting enterprise and small business; thus a focus on SMEs is part of a wider commitment to working in the public interest. SMEs make a substantial economic and social contribution to countries around the world, and disproportionately so to those that ACCA identifies as its key markets. Competent support from professional accountants can enable them to achieve even more.

3. SMEs are central to ACCA's vision for the future of the accounting profession.
Because SMEs are resource and time-poor organisations, ACCA sees their willingness to pay for the profession's services as a reliable indicator of added value. It is therefore very satisfying to note the extent to which professional accountants are relied on by SMEs for business and regulatory advice. The demand for business support services is at the forefront of the profession's transition from compliance workers to business advisers, a key preoccupation of ACCA under its global theme, *Accountants for Business*. It is also clear that entrepreneurs and owner-managers of SMEs are an important part of accountants' professional networks and are therefore important to the profession's growing relevance and reputation.

HOW TO USE THIS REPORT

This paper brings together ACCA's understanding of SMEs and their needs, and is addressed primarily to stakeholders involved in the design of policy, regulation and business support around the world. Its purpose is to function as a 'grow your own' kit around which individuals, teams and organisations can develop their knowledge, relationships and agendas. As a minimum, readers should be able to use this report in order to:

- make (or assess) the case for prioritising the concerns of smaller businesses
- anticipate the growing importance of SMEs as particular markets develop
- decide on which potential themes should be explored in SME-related work
- identify stakeholders and potential partners in SME-related work
- assess the relevance of policies, products and services to SMEs
- interpret the frequently abused 'Think Small First' principle in policy design.

1. Defining the SME

Early definitions of 'small' businesses were largely qualitative, and often quite vague. The overriding principle behind influential definitions adopted by the US Small Business Mobilisation Act of 1942 and the Small Business Act of 1953, or the UK's Bolton Committee in 1971, was that smaller businesses needed to be supported because they did not always face a level playing field, and thus the emphasis was on defining a disadvantaged enterprise – usually in terms of market share or bargaining power.

However, because small business policy has always attracted direct and indirect subsidies to businesses identified as sufficiently 'small' (Levine 2005), definitions have gradually shifted towards more objective size thresholds that could be unambiguously enforced. Under pressure to better plan and evaluate their interventions, policy-makers also developed a strong appetite for statistics on such businesses, leading to further compromises to facilitate the collection and processing of such information.[1] Almost all SME definitions now employ a small number of thresholds against variables accepted as proxies for size. The setting of such thresholds is ultimately a political decision, even though technical arguments for different treatments abound.

To date, there is no single agreed definition of an SME, although a small group of key variables – independence and legal status, sector, employment, turnover, capital investment and balance sheet totals – are considered in most government definitions. To the extent that any consensus exists, it is worth noting the high level of acceptance of the European Commission's (EC) definition, as well as those of the UN Industrial Development Organisation (UNIDO) and the World Bank (WB). These focus on businesses with fewer than 250 (EC and UNIDO) and 300 staff (WB), and less than €35m (EC) and $15m (WB) of total assets/turnover. Also of particular importance to ACCA is the International Accounting Standards Board's (IASB) definition of SMEs, which includes any company that a) has no publicly traded debt or equity, b) does not hold any assets in a fiduciary capacity for other third parties as its main business, and c) prepares general purpose financial statements for external users (IFRS 2009).

Appendix 1 summarises the SME definitions in ACCA's major markets. It can be seen that many national definitions diverge substantially from those discussed above, but there is a general consensus around the 150–300 employees threshold, assuming a reasonable mix of service and non-service industries. Other things being equal, SME thresholds tend to be higher in larger economies and lower in more services-based economies. Similarly, where SME thresholds vary by industry, they tend to be higher for manufacturers. Finally, developing countries are more likely to emphasise criteria other than employment in their SME definitions as a means of incentivising investment. The existence of a 'formal' SME definition, of course, does not preclude the use of alternative definitions by different agents, such as tax authorities, development agencies and financial intermediaries, even in countries with a long history of SME policy.

DEFINING THE SMALL AND MEDIUM PRACTICE (SMP)

The term 'SMP' is much less readily recognised than 'SME', despite the fact that it is prevalent among accountancy bodies, especially those of international standing (Blackburn and Jarvis 2010). Although providing a precise globally applicable definition is fraught with difficulties, an SMP will itself be an SME, employing a limited number of professional staff, and also have the following characteristics:

- most of its clients are SMEs
- it does not ordinarily audit the accounts of listed organisations, and
- the majority of its work for clients is made up of non-assurance services.

An underlying reason for defining SMPs is to distinguish them from the second tier and large accountancy organisations (including the 'Big Four'). This distinction also provides a basis for the membership organisations such as the International Federation of Accountants IFAC and regional organisations, such as the Confederation of

1. For instance, both the complex US definition and the more straightforward European one are often reduced to a single employment threshold (500 and 250 staff respectively) for the purposes of official statistics.

Asian and Pacific Accountants (CAPA), who provide qualifications for members and technical standards and guidance for the profession. Many organisations for the profession also provide an important lobbying and advisory function on behalf of SMPs to government and regulatory bodies at national and international level.

A critical view

A key weakness of official SME definitions is that they typically encompass the vast majority of businesses in each jurisdiction, which can make targeting and assessing SME policies difficult. Many governments and agencies deal with this problem by introducing further sub-groups. For instance, jurisdictions as diverse as the EU or Malaysia have set separate thresholds for medium-sized, small and micro-enterprises. Even this classification can be too aggregated, leading some to call for recognition for the self-employed and 'nano-businesses' (PCG 2010). Others get around this problem by omitting informal or micro-enterprises from the SME sector altogether (Batini et al. 2010).[2]

Perhaps more importantly, size, however understood, is not the defining characteristic of sub-groups within the SME sector, or of the sector itself.[3] It is also often argued that, in the case of owner-managed businesses, using the owner-manager as the unit of analysis is more constructive than focusing on the enterprise (Stacey 2001). These perspectives suggest that a range of other variables can be as relevant as size or even more so.

- Owner characteristics (age, race and ethnic background, gender, and disability)
- Owner-management
- Location and community characteristics (eg deprivation)
- Business age, especially start-up status (usually 3 years or less)
- Growth orientation and conceptualisation of growth
- Innovation orientation
- Role in the supply chain
- Level of internationalisation
- Legal structure
- Family ownership/management
- Home vs office premises
- Formal vs informal status.
(ACCA 2010a).

Finally, it is worth noting that the public's intuitive understanding of an SME may differ from that of policy-makers (Kozmetsky 1986). Public perceptions are dominated by the businesses people interact with on a daily basis. Since most businesses are much smaller and less sophisticated than the **average** SME[4] this suggests that tensions can potentially emerge between the formal and implied size thresholds.

2. Informal enterprises are often treated as a matter of labour market, rather than industrial, policy.

3. For a criticism of this approach, see Hauser (2005) or Gibson and van der Vaart (2008).

4. For more details on the size distribution of SMEs, see di Giovanni et al. (2010).

2. The contribution of SMEs to the world economy

It has become commonplace, in the aftermath of the global downturn of 2008–9, to refer to SMEs as the backbone of the global economy. To do the sector justice, commentators would have to resort to further anatomical analogies; the sinews and heart, for instance, would be highly appropriate, as the contribution of SMEs is significant not only in static but also in dynamic and possibly moral terms.

A STATIC ANALYSIS

The vast majority of businesses globally are very small (di Giovanni et al. 2010). Across the world the median business has no employees, and, even if the millions of non-employers are disregarded, the typical business is likely to have only a handful of staff.[5]

In ACCA's top 20 markets globally, SMEs as locally defined consistently make up the vast majority (85% to 99.9%) of the business population. They also account for just under 50% of private sector value added,[6] and 77% of private sector employment (see Appendix 1 for data and a note on the contribution of smaller businesses). If all other countries for which reasonably good data are available are added to this total, SMEs can be shown to account for 52% of private sector value added and 67% of employment, which provides a reasonable approximation for the sector's global footprint.[7]

Of course, the contribution of SMEs to economic fundamentals varies substantially across countries: richer countries typically have larger SME sectors and smaller informal sectors than poorer countries, and open economies tend to have smaller SME sectors than relatively closed ones. History and legal tradition can play a very important role too: for instance, former Soviet countries tend to have disproportionately small SME sectors, even when controlling for per capita income (Ayyagari et al. 2003).

It is equally important to appreciate that a great deal of enterprise activity takes place not among 'formal' SMEs but in the informal economy, and that the two sectors constantly flow into and out of each other.[8] Global research suggests that the combined share of formal SMEs and the informal sector is fairly stable across country income groups, with activities shifting from the informal to the formal economy as markets and their institutions develop and regulations are eased (Ayyagari et al. 2003).

A DYNAMIC ANALYSIS

The smallest of businesses are often said to exist in a Schumpeterian world of continuous creative destruction as the market weeds out the least sustainable business models or the least successful owner-managers. While this underestimates the vast number of steady-state, lifestyle businesses with little entrepreneurial aspiration[9] it is fair to say that the SME sector is highly dynamic. In 2002, the Global Entrepreneurship Monitor (GEM) report suggested that as many as 460 million adults around the world might be engaged in entrepreneurial activity – and that this might result in the creation of about 100 million new businesses (Reynolds et al. 2002).

5. For instance, 78% of businesses in the US are non-employers (SBA 2009). Similarly, EIM (2010b) estimated that the average micro enterprise in the EU-27 nations had two employees in 2008; the average SME had only four.

6. Such statistics must be treated with caution because they usually omit the financial services sector and the public sector altogether, owing to the difficulty of establishing turnover and value added figures. In economies highly reliant on natural resource exports, figures can sometimes exclude the main export industry.

7. Employment and output shares were weighted by nominal GDP in 2009 USD and by the latest estimate of each country's workforce. The approximation used includes ACCA's top 20 markets, plus the OECD and G-20 (minus all overlaps). Taken together, these countries account for 90% of global value added (GVA) and 75% of the global labour force, suggesting a reasonable proxy for the world economy. A second estimate was also carried out, assuming that the SME and informal sectors' shares of GDP and employment in undocumented countries were equal to the average of their respective shares in all well-documented countries where GVA per member of the workforce was lower than the G-20 average. This calculation suggests that SMEs account for 63% of private sector employment and 49% of private sector GVA globally.

8. For a detailed discussion, see Batini et al. (2010).

9. Bosma and Levie (2010) estimate that, between 2004 and 2009, only about 14% of owner-managers of entrepreneurial firms less than 42 months old globally expected to have 20 or more employees in five years' time.

Business births are also a very substantial force in shaping the SME population, rarely falling below 3% and rising to 19% of the stock of businesses, depending on the structure and dynamism of different economies.[10] This is despite the fact that new entrants face serious obstacles to penetrating some of the more concentrated or more regulated sectors – generally referred to as barriers to entry (OECD 2007a). However, infant mortality among businesses is also high. For instance, about half of the European businesses born in 2001 did not survive their first five years of operation, and survival did not become any more likely with each additional year of operation (Scrör 2008). By generating a steady flow of new entrants to and exits from business sectors, the SME sector helps drive competition and forces incumbents to become more productive or more innovative, and SMEs are themselves credited with developing and commercialising the majority of innovative products and services in use today (Block et al. 2009).

At the macro level, evidence is beginning to emerge that entrepreneurial activity, especially of an innovative nature, is a leading indicator of the broader economic cycle – increasing ahead of economic recovery and falling ahead of economic downturns (Koellinger and Thurik 2009). Indeed, research published by the OECD shows that entrepreneurial activity was already falling by 2007, well ahead of the economic downturn of 2008–9 (OECD 2009).

It is often said that the SME sector is an engine of job creation, but headline data can be misleading in this regard. Dynamic analyses show that SMEs undertake the lion's share of both job creation *and* job destruction in most economies. On a cohort basis, the act of going into business for oneself appears to be a more significant force for job creation than the headcount decisions businesses make once established (Headd 2010). It is also very likely that job creation follows Pareto's Law, in the sense that a very small number of high-growth SMEs, commonly referred to as 'gazelles', account for the majority of all jobs created.[11]

In light of their contribution to the dynamics of the global economy, entrepreneurs and the SME sector are seen as key drivers of economic development (Bosma and Levie 2010) and important partners in the fight against poverty globally (Koshy and Prasad 2007), even though some of the claims made by policy-makers and advocacy groups are not readily supported by the available evidence (Beck et al. 2005).

A MORAL PERSPECTIVE

The popular discourse around SMEs often contrasts the sector with 'big business' and 'corporates', with the latter terms often used in a pejorative manner. What is often implied by commentators and policy-makers, but rarely made explicit, is that the wider public sees the SME sector, and particularly owner-managed businesses, as a force for good – the moral conscience of business.[12]

Global research for the World Economic Forum (WEF) has shown that the public believes SMEs in general to be more driven by universal values than are large corporates or national governments (Schwab et al. 2010). Policy-makers, on the other hand, are particularly interested in SMEs' ties to their local communities. The argument tends to be that that SMEs can tie down jobs and spur local development because they are more labour-intensive than large businesses (Thorbecke et al. 2010), the jobs and economic activity they generate are less mobile (Newberry 2006) and their owners are willing to tolerate negative returns for longer (Gimeno et al. 1997). Moreover, it is argued that 'the boundary between being an owner-manager and a private person with a (mostly) local life dissolves. Businesspersons, and with them businesses, are deeply socially embedded in the community context.' (Johannisson 2009).

The evidence suggests that most SMEs do in fact adopt socially responsible practices as a direct result of their community ties (Newberry 2006), and it is estimated that about 1.8% of the global adult population is involved in early-stage enterprise activity aimed at goals besides profit – which adds up to around 57 million young socially minded enterprises globally (Bosma and Levie 2010). Moreover, SMEs and self-employment itself offer greater opportunities and job satisfaction to the underprivileged or those likely to face discrimination, and entrepreneurs are at the forefront of the struggle against disadvantage (ACCA

10. Figures sourced from the *World Bank Global Survey of Entrepreneurship 2008*. The extreme values cited here are for Singapore (maximum, 2007) and India (minimum, 2006).

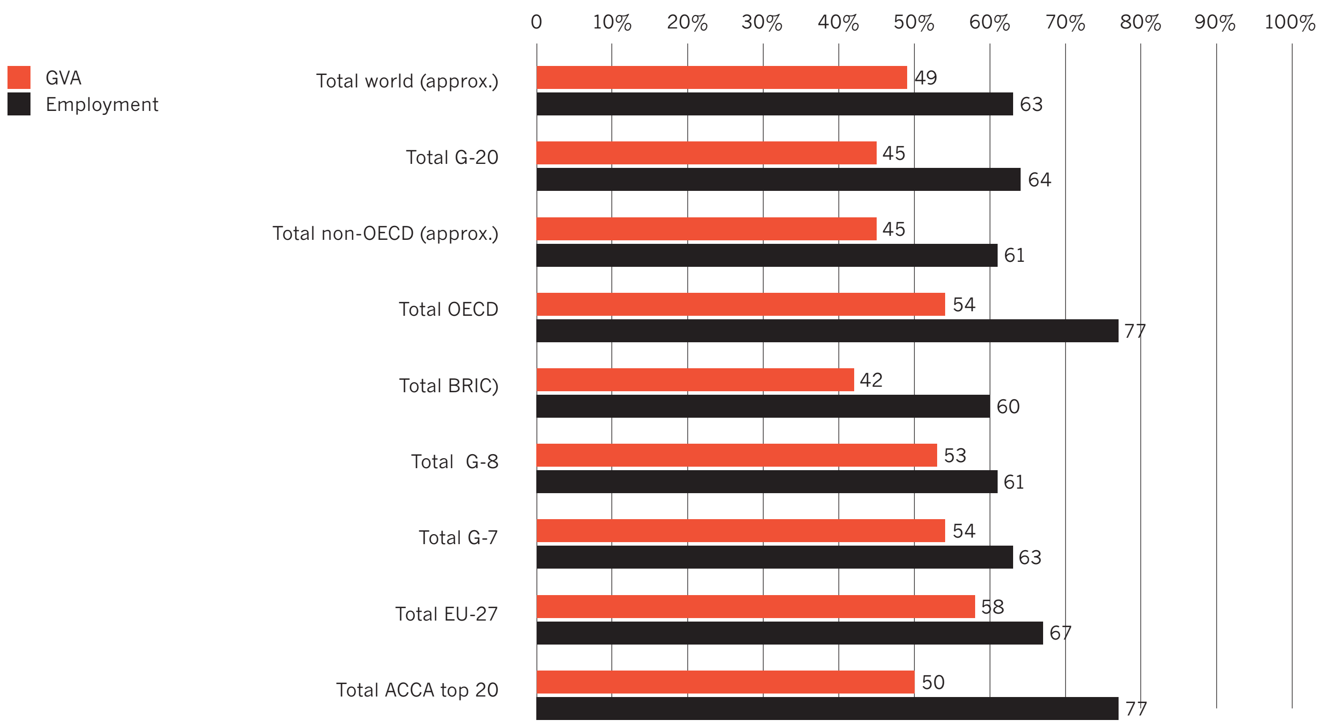
11. This effect has been documented in terms of job creation expectations in Autio (2007). The effect on actual businesses has been documented, for instance in the US, in Acs et al. (2008); and in the UK, in NESTA (2009).

12. For an analysis and critique, see Castel-Branco (2003)

2010b). In the words adopted by the European Parliament, SMEs are ‘civil society builders’ (European Parliament 2006).

On the other hand, governance structures in the SME sector can often be rudimentary, and the more widely accepted standards of corporate social responsibility (CSR) are inaccessible or inapplicable to small businesses (Binder et al. 2009). Moreover, the non-separation of ownership and management that is common among SMEs is as much a weakness as it is a strength, since the priorities of stakeholders are sometimes sacrificed in the pursuit of entrepreneurial autonomy.[13] This suggests that the public’s continued faith in SMEs is far from assured and maintaining it requires ongoing effort and support.

Figure 1: Employment and GDP contribution of SMEs



13. For a discussion in the context of developed countries, see Banham and He (2009). For a discussion in developing nations, see Mponji (2009).

3. Thinking small first

As discussed in Section 2, the contribution of SMEs to society and the economy is often interpreted as a justification for subsidising the sector across the board, and policy-makers can often view SME jobs and activity as somehow superior to those of large businesses. Neither approach is actually desirable; policy-makers keen to nurture the potential of the sector should instead note the unique circumstances of SMEs and carry out their duties in a manner that does not disadvantage smaller businesses. In other words, they should adhere to the 'Think Small First' principle.

The phrase 'Think Small First' has obvious political appeal, owing to the strong identification of the general public with SMEs (Schwab et al. 2010). It almost certainly traces its origins to the language of business advocacy organisations. Accordingly, its interpretation has for the most part been allowed to remain tactically unclear. Even the European Commission, which almost certainly provided the first coherent definition of 'Think Small First' in March 2009, did so nearly a year *after* it enshrined the principle in the European Small Business Act.

The definition of the 'Think Small First' principle implies that policy-makers give full consideration to SMEs during the early stage of policy development. Ideally, rules affecting business should be created from the SMEs' point of view or, in other words, SMEs should be considered by public authorities as being their 'prime customers' as far as business regulation is concerned. The principle relies on the fact that 'one size does not fit all', although a lighter-touch approach can also be beneficial to larger businesses. Conversely, rules and procedures designed for large companies create disproportionate, if not unbearable burdens for SMEs as they lack the economies of scale (European Commission 2009).

In fact, the earliest reference to 'Think Small First' can be found in the proceedings of the Madrid European Council in 1995 (European Commission 1995). The principle also featured quite prominently in the UK government's review of Company Law in 1999 (Company Law Steering Group 1999) and its first Small Business Strategy in 2000 (DTI 2000). In the European context, 'Think Small First' took centre stage in economic policy with the European Commission's (EC) launch of the Lisbon Strategy in 2000 and its re-launch in 2005, despite not being explicitly cited in either document.

The concept was developed further in the pivotal 2008 Communication on a 'Small Business Act' (SBA) for Europe. The Act aims to:

> *improve the overall policy approach to entrepreneurship, to irreversibly anchor the 'Think Small First' principle in policy-making from regulation to public service, and to promote SMEs' growth by helping them to tackle the remaining problems which hamper their development.* (European Commission 2008)

While the 'Think Small First' phrasing is fairly recent and European in origin, most of the principles associated with it have been in place around the world, and for far longer. For historical reasons, the emphasis of 'Think Small First' provisions has been on regulation and the burden it places on SMEs. However, 'Think Small First' can be applied to all types of interventions, from tax to business support or public procurement. While it is easy to misinterpret this principle as a call for small business subsidies at every turn, there are five legitimate interpretations which are commonly cited and applied in practice.

Stakeholder approach

Under this approach, small businesses are the primary customers of government departments and agencies. Government identifies and prioritises the sector in consultation, in the development of services and policy in general. Early attempts at SME-focused policy were usually performed in this vein, and most statements of good practice in business consultation and guidance draw on the stakeholder approach.

Impact assessment or 'SME Testing' approach

When policies are not specifically designed for SMEs, those costs and benefits that are unique to the SME sector are often estimated using extrapolations of a standardised model of compliance costs (usually the Standard Cost Model, or SCM). These typically include the use of owner-managers' time in ensuring familiarisation and compliance, as well as the costs of getting information and updating compliance systems.

The SME Test methodologies of the UK Better Regulation Executive and the European Commission, as well as most Administrative Burdens Reduction programmes around the world, make use of the impact assessment approach.

Differential or proportionate approach

Separate regulations or policy regimes can be developed for defined groups, in proportion to their resources or to the potential impact of their activities on the public. Typically this will result in a lighter regulatory regime for small businesses, which are exempt from some reporting obligations or subject to simplified requirements. Enacting proportionate regulation depends strongly on making correct assumptions about how SMEs (and sub-groups within those) differ from other organisations, and how these differences relate to optimal policy.

Jurisdictions practising risk-based regulation will typically take a differential approach to regulation: for instance, the US Regulatory Flexibility Act of 1980 was a clear example of the differential or proportionate approach. Most SME exemptions from regulatory requirements are enacted on this basis. Importantly, this approach has been taken in the design of International Financial Reporting Standards (IFRS) for SMEs.

Zero-subsidy or zero-arbitrage approach

There is evidence that the unit cost[14] of compliance with tax and regulation, or of accessing business support or procurement opportunities, is larger for SMEs than for businesses with greater compliance or administrative resources.[15] Where this is the case, an implicit subsidy can be said to be in place for larger businesses, with detrimental effects not only for the performance of the SME sector but also for competition, efficiency and innovation. The zero-subsidy/zero arbitrage approach aims to either remove this implicit subsidy or compensate for it, through business support interventions, proportionate rules, or exemptions from compliance obligations. Conversely, however, this approach should also aim to prevent regulatory arbitrage through the SME sector – a unit subsidy for smaller businesses which could lead to the contracting out of activities to smaller or informal businesses for the sole purpose of reducing overall compliance costs.[16]

14. For instance the cost of employment or health and safety regulation per employee, the cost of VAT compliance per pound of turnover or the cost of pre-qualification for a government procurement opportunity per pound in the value of the resulting contract.

15. For instance, the European Commission (2007) found that unit administrative costs for medium-sized businesses were four times higher than for large businesses, while those for small businesses were ten times as high.

16. The latter approach is, for instance, evident in the regulation of the freelance sector, which can be used as a vehicle for circumventing some aspects of employment regulation.

Programmes for improving SME access to business support or the government procurement market through the use of online portals, as well as support for businesses taking on their first member of staff, are examples of the zero-subsidy approach.

Building block or bottom-up approach

Under this approach, regulators should begin their work by considering what regulations or enforcement mechanisms would be suitable for the smallest entities, and then build on these to develop proportionate regulation for larger entities. This approach leads to different outcomes from the top-down approach, as the structures and risk drivers of a micro enterprise are replicated in the largest of companies but not vice versa. This approach treats large businesses as an ‘exception’ to the small business ‘rule’, rather than the reverse.

Strictly speaking, only the ‘building block’ or bottom-up approach is a true ‘Think Small First’ principle, **first** being the operative word. All other approaches would, in theory, allow some or even most policy-makers to operate with no regard to the circumstances of SMEs, as long as the appropriate ‘SME gatekeepers’ are in place to make SME-friendly modifications ex post. In practice, however, the approaches detailed above are complementary, as they refer to different elements of the policy-making process.

- The stakeholder approach helps to alert policy-makers to developments in the SME sector and improve the quality of insights available to them.
- The proportionate and zero-subsidy/zero-arbitrage approaches are both helpful in identifying regulations and policies in need of review, with a proportional approach performing best when the impact of policies on SMEs is either hard to measure or complex.
- The building-block approach provides a good model for the design of new regulations, services and policies, as well as for the wholesale review of existing ones.
- The impact-assessment approach provides a framework for validating the SME-friendliness of policies developed through the above process, and particularly the ‘building block’ or assumptions employed in their design.

4. The business life cycle: enterprise skills, finance and support

This paper has so far taken an organic view of business, referring to business 'birth' and 'death' (see Section 2). Although this constant churn is extremely important, both entrepreneurs and policy-makers are usually preoccupied with what comes in between: the growth of enterprises, and how this can be encouraged.

Standardised models of business growth can be misleading, because it is not linear or uni-directional but episodic (Brush et al. 2009), with businesses following all manner of growth trajectories. For instance, policy-makers are often surprised to find that high-growth businesses tend to be not start-ups, but quite mature enterprises (Acs et al. 2008). Moreover, just as business **size** is a very problematic concept (see Section 1), so is business **growth**, which can encompass increases in turnover or value added, job creation, internationalisation, deepening networks, or the accumulation of intellectual or physical capital. As a rule, most small business owners aspire to growth of **some** kind, though they often perceive this as incremental rather than radical growth, and do not necessarily equate this with increases in headcount (Jarvis et al. 1996).

However defined, growth consists of business, management and organisational development in response to the firm's objectives and environment (RCB, CME and QSB 2003; see Figure 2). The capabilities required for turnover growth are perhaps best summarised (for the smallest firms) in terms of 'Marketing, Management and Money' (Brush et al. 2009). This typology of development needs does not, of course, provide a recipe for success. Growth (especially super growth) is nearly impossible to predict on a case-by-case basis (Acs et al. 2008), and investments in early-stage businesses typically yield negative returns even for sophisticated, hands-on investors (Wiltbank 2009).

Access to finance in particular can be a major obstacle to growth because both the needs and the risk profile of a business vary through its life cycle (see Figure 3). With bank lending generally only available to businesses that generate revenue, especially those that are cash-positive or can offer substantial amounts of collateral, access to 'risk capital' can make all the difference to a business's growth prospects. Perhaps not surprisingly in the face of massive risk and incomplete information, these markets are far from perfect and governments around the world have reason to believe that a 'funding gap' exists which it is in their interest to address (OECD 2006b).

Figure 2: A framework of development needs through the business life cycle

Challenge areas	Specific challenges	Start-up stage	Fast-growth stage	Sustainability stage	Global enterprise
Business development (strategy)	Strategy for growth Managing the finance gap Creating networks and market connectivity	Validation Seed funding Sales	Growth for survival Financing growth Connections	Growth for profitability Retained earnings and/or exits Alliances and awareness	Sustainable growth Financing evolution and change Mergers and alliances
Management development (leadership)	Upgrading management skills and capabilities Challenging the leader's assumptions Managing successions and exits	Entrepreneurship Perseverance Directing	Management Results Delegating leadership	Leadership Stakeholders Nurturing leadership	Executive vision Critical feedback Stepping aside
Organisational development (infrastructure)	Growth and organisational change Professionalising the business infrastructure Maintaining organisational culture and values	Managed chaos Observation and intuition Explicit definition of desired culture	Alignment Reporting Aligning culture with strategy	Operational involvement Controlling Monitoring culture	Re-engineering Professional benchmarking Aligning culture with strategy
Influencing factors (context)	Innovation climate Government and public policy Financing availability Internationalisation Knowledge strategy Alliances	Product Incentives Owner equity/ love money Domestic Know how Customers	Customers Taxation Debt financing Opportunistic Information flows Distribution	Process Regulation Private equity Exporting Decentralising knowledge Operations	Diversification Macroeconomic policy Public equity Multinationality Kowledge management

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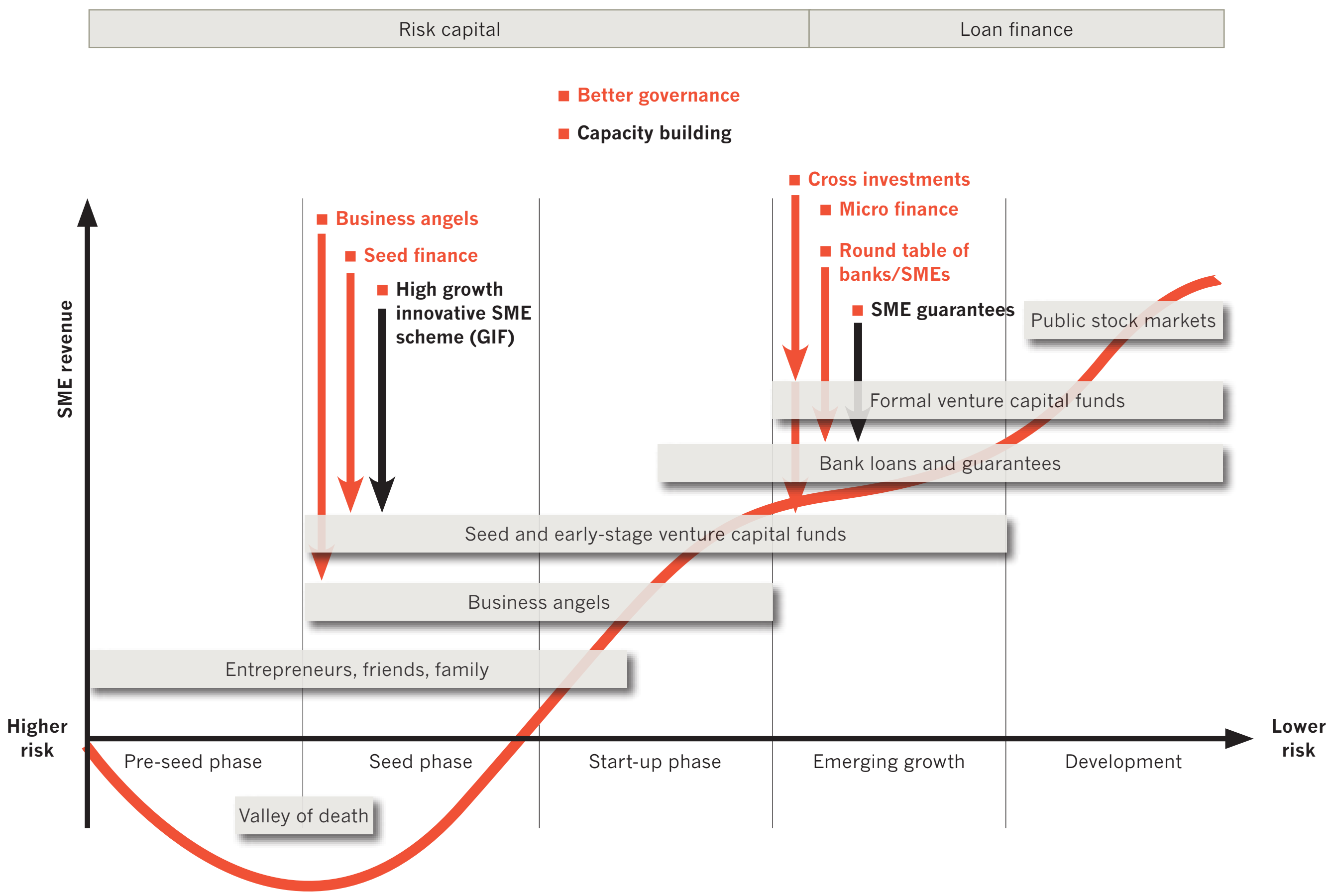
Source: RCB, CME and QSB (2003).

Figure 3: Funding needs, suppliers and policies across the business life cycle



Source: Portuguese Presidency (2007).

THE CASE FOR SUPPORT

As discussed in Section 3, government policies and regulations are not always built with the small business in mind and the competitive advantages of larger rivals can be formidable. In this section we also briefly explored how growth can be ill-served by the supply of finance. But often it is not just the external environment that is ill-suited to small business success; the business's internal resources can be misaligned as well. Of these, perhaps the most important is the owner-managers themselves.

Entrepreneurs are not necessarily more skilled than the rest of the population. Although more educated people are more likely to **want** to become entrepreneurs, they are actually **less** likely to act on this preference (Van der Zwan et al. 2010). In less-developed countries, a large percentage of entrepreneurs, especially female entrepreneurs, are illiterate (Stevenson and St-Onge 2005; McCormick and Wahba 2001). Nor is enterprise training, or any kind of grounding in essential enterprise skills, common: the majority of working-age citizens in any country have never received any kind of enterprise education (Coduras Martínez et al. 2010). Even running one's own business is no panacea, as the returns to learning by doing are limited in the medium term (Frankish, et al. 2007).

Finally, it is important to note that self-employment is not always a choice for entrepreneurs (Gimeno et al. 1997). Between 2005 and 2009 an increasing proportion of entrepreneurs were driven by necessity rather than preference (Bosma and Levie 2010), and there is a strong link, associated with necessity entrepreneurship, between immigration and business start-ups (OECD 2010; Amin 2010).

For all the above reasons, small business owner-managers often need external support, in the form of advice, professional services and funding, to help them overcome their limitations or resource constraints or to mitigate the distorting effects of policy and regulation. Accountants are almost universally the professional advisers of choice for SMEs (Blackburn and Jarvis 2010), alongside bank managers and the legal profession (Berry 2006).

This does not mean that small business owners will readily seek advice and support: taking advice is costly in more ways than one for small business owners, who tend to resent any loss of control over their business (Cressy 2006). Even when they do want advice, entrepreneurs will not necessarily be able or willing to pay for it (Devi and Samujh 2010). This state of affairs has motivated governments to develop different models of publicly funded business support, to which they devote substantial resources. In the UK, for instance, total spending on government funded-business support comfortably exceeds the value of the market for private sector business support.[17]

IMPLICATIONS FOR POLICY-MAKERS

It is clear from the above that the dynamics of the business life cycle add to the diversity of the SME population as discussed in Section 1, leading to a potentially endless proliferation of business development needs and business support priorities. The evidence points to a distinction between the 'SME agenda', which revolves around levelling the playing field for small but established businesses, and the 'enterprise agenda', which involves enabling entrepreneurs or entrepreneurial firms and improving business demographics (business creation and survival).

The G-20 Young Entrepreneur Summit of 2010 suggested the following as the major elements of the **enterprise** agenda: Regulation and taxation; access to funding; co-ordinated business support; enterprise education and training; and the promotion of a culture of entrepreneurship (G20-YES 2010).

On the other hand, the **SME** agenda, while dealing with issues that could easily come under similar headings (finance, regulation, tax and business support), differs because it addresses a later, lower-risk stage of the business life cycle. It emphasises the role of improved management and increased productivity, of access to markets (including export markets and public procurement), access to credit and government grants and, latterly, responsibility/accountability for social or environmental outcomes.[18]

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17. For comparisons, see ACCA (2009b) and BRE (2007).

18. Elements of this approach are captured well in OECD (2000).

This distinction was illustrated even in the depths of the 2008–9 economic downturn – when ACCA research found that among a global sample of SMEs, businesses with the highest growth expectations were more concerned about the burdens of regulation or the scarcity of workforce skills than their non-growing peers – who were disproportionately concerned with demand and access to finance (ACCA, CGA-Canada and CPA Australia 2009).

In times of steady growth, government policy can be biased towards the more conservative 'SME agenda'. As we have demonstrated (see Section 2), most businesses have very limited growth aspirations; they start small and stay small. Moreover, the majority of the members of major business organisations tend to be mature, steady-state businesses (EIM 2009).

Finally, the emphasis placed by commentators on a static view of the SME sector's contribution (See Section 2) can help to reinforce the focus on such businesses. The natural owners of the 'enterprise agenda', on the other hand, are active and **potential** entrepreneurs, enterprise networks and agencies, business support organisations and possibly some elements of the venture capital industry: a more disparate and less politically influential group. However, since the economic downturn of 2008–9, the prospect of a credit-constrained and jobless economic recovery in developed countries has once again focused attention on the enterprise agenda, emphasising the role of equity finance, new industries and self-employment.

5. The macro-foundations of SME growth

The precise mapping of business development needs in Section 4 may give readers the impression that policy-makers can make an enormous difference to the prospects of SMEs through targeted business support interventions. However, many researchers point out that evidence on the effectiveness of government programmes for business support is mixed, and that getting the macro-economic conditions right is a much more effective approach than interventions at the micro-level (Bannock 2005 and Storey 2009). There is even some compelling evidence that micro-interventions themselves work best when not targeted explicitly at SMEs but at the *entire* business population (Ibarraran et al. 2009).

Because richer countries tend to have larger SME sectors (see Section 2), there is reason to believe that making macro-economic conditions suitable for the growth of (formal) SMEs is consistent with accepted goals of economic development and economic growth. In the most complete study to date of the macro-determinants of SME growth around the world, Demirguc-Kunt, Ayyagari and Beck established the following correlations, many of which suggest objectives for policy-makers (Table 1). The variables most correlated with a smaller informal sector should, in general, also contribute to the growth of small and micro-enterprise sectors.

These findings involve a very broad range of policy variables. This suggests, among other things, that what is usually understood as 'SME' or 'enterprise' policy is only a small subset of the actual policies that are relevant to the development of the SME sector. This in turn means that government departments responsible for fiscal and trade policy, justice or employment law, as well as central banks and financial regulators, may have more power to encourage SME growth than the departments or agencies responsible for business and enterprise.

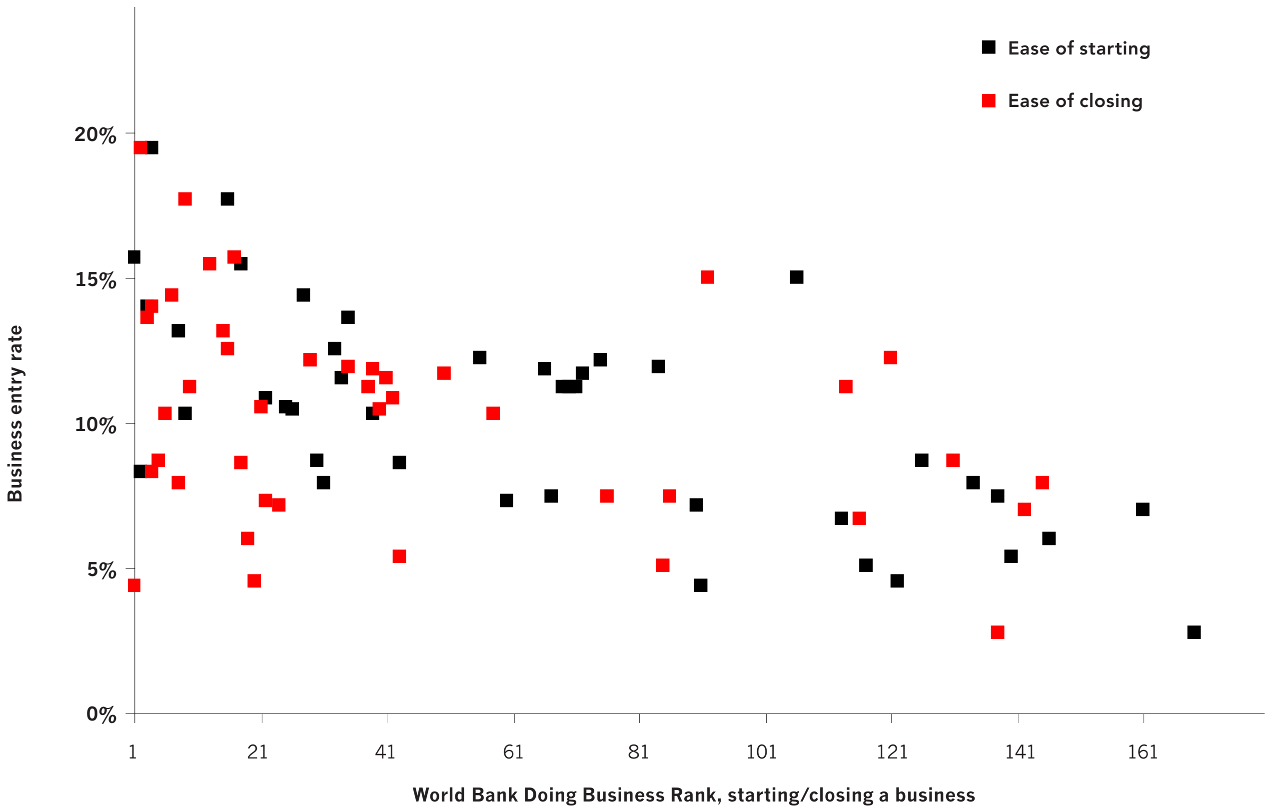
Macro policies outperform micro interventions in improving not only the contribution of SMEs to the economy but also the demographics of the business sector. As Figure 4 demonstrates, the ease of starting and winding down a business are both associated with the rate of business start-ups. Similarly, perceptions of excessive administrative burdens and poor access to finance are understood to discourage early-stage entrepreneurship. Education can help establish a preference for self-employment but may also discourage would-be entrepreneurs from acting on such preferences (Van der Zwan et al. 2010).

Table 1: Determinants of the size of the SME and informal sectors relative to GDP

	Larger SME sector	Smaller informal sector
Macro policy variables	High levels of education	High levels of education
	High level of financial intermediary development	High level of financial intermediary development
	Low inflation	High level of government expenditure
	Low levels of openness to international trade (See Section 6 for an explanation)	
	Low levels of policy distortions (black market premia)	
Business environment variables	Lower costs of registering a business	Lower costs of registering a business
	Efficient bankruptcy regimes	Efficient bankruptcy regimes
	High quality of institutions	High quality of institutions
	Efficient regulations	Efficient regulations
	Protection of property rights	Protection of property rights
		Low costs of dispute resolution
		Flexible employment regulation
Growth obstacles	Good access to finance	Good access to finance
	Good infrastructure	Good infrastructure
	Low levels of corruption	Low levels of corruption
	Low inflation	Political stability
		Stable exchange rates
		Low levels of street crime
		Low levels of organised crime
		Efficient judiciary
		Protection from anticompetitive practices
Historical variables	Ethnic homogeneity	Ethnic homogeneity
	Low settler mortality (indicates a history of settlement, as opposed to extractive, colonisation)	Low settler mortality (indicates a history of settlement, as opposed to extractive, colonisation)
	French civil law tradition	Legal tradition not French civil law
	Legal traditions other than socialist	High quality of crops and arable land
		High latitude

Source: Ayyagari et al. (2003).

Figure 4: The relationship between barriers to entry and exit and the rate of business start-ups



Source: World Bank, *Doing Business 2010* and *Global Surveys of Entrepreneurship 2006–8*

Table 2: Barriers to business entry and exit in selected ACCA markets

Country	Ease of starting up in business: 2010 rank	Ease of closing a business: 2010 rank	Business entry rate (new SMEs as % of business stock), latest estimate
UK	16	9	18%
Malaysia	88	57	
Singapore	4	2	19%
China	151	65	
Ireland	9	6	10%
Pakistan	63	56	
Russia	106	92	15%
Hong Kong	18	13	15%
Canada	2	4	8%
Poland	117	85	5%
Australia	3	4	14%
Nigeria	108	94	
United Arab Emirates	44	143	
USA	8	15	13%
Trinidad and Tobago	65	183	
Cyprus	25	21	11%
Mauritius	10	73	
Ukraine	134	145	8%
Ghana	135	106	
Kenya	124	79	

Source: World Bank, Doing Business 2010 and World Bank, Global Surveys of Entrepreneurship 2005–8.

6. SMEs in the global economy

Globalisation of business is often seen as synonymous with the rise of gigantic multinational corporations, and it is tempting to think that SMEs have only a marginal role to play in this process.

However, the share of SMEs (even the smallest ones) engaged in international activity is often much greater than the public or policy-makers assume it is (EIM 2010a) and has been, at least before the global downturn of 2008–9, growing rapidly (Lloyd-Reason and Mughan 2006). There is also evidence of what researchers call the 'born global' effect: more than half the population of entrepreneurs in developed countries, and around a third in developing countries, go into business with plans to attract at least some income from overseas (Bosma and Levie 2010).

The rise of e-commerce has accelerated these trends. There is evidence that it has reduced the risks associated with internationalisation of SMEs by improving their access to market information (Mathews and Healy 2007), and providing unprecedented marketing and communication capabilities (Jaw and Chen 2006). Internet use has also challenged the traditional 'stage' view of internationalisation, by allowing SMEs to enter foreign markets in non-standard ways (Jaw and Chen 2006; Chrysostome and Rosson 2004).

Internationalisation is not confined to imports or exports. In fact, SMEs are increasingly involved in more complex international relationships, from licensing and subcontracting agreements to exchanges of technology, foreign direct investments and joint ventures (EIM 2010a).

Reported levels of internationalisation vary substantially between different countries. In 2006, the OECD estimated SMEs' contribution at around 30% of exports and 10% of foreign direct investment (FDI) (OECD 2006a). SMEs' contribution to the total value of exports varies from 8% in Australia (Ergas and Orr 2007), 19% in Malaysia (NSDC 2007) and 25% in Pakistan (SMEDA 2007) to 30% in the US (USITC 2010), 40% in India (MSME 2010a) and a massive 68% in China (Hall 2007). More than two-thirds of Singapore's SMEs (69%) are internationally active (Fernandez 2010), against 44% of European SMEs, which in turn are more likely to be internationalised than those in the US or Japan (EIM 2010a). Although the different SME definitions employed in these countries have much to do with this variation, there are other, more systematic differences which bear upon the extent of SMEs' international activity.

BEYOND MULTINATIONALS

While SMEs' engagement with the global economy is a complex process and generalisations can be misleading, research on business internationalisation has established some reliable facts:

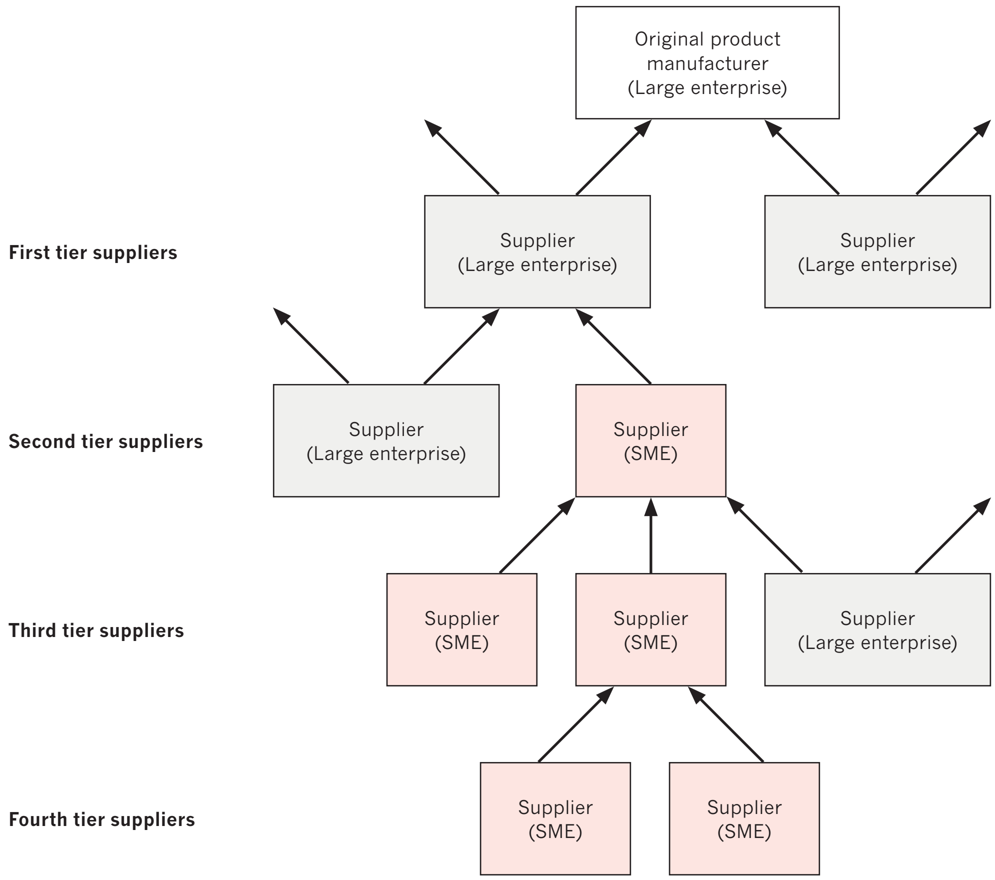
- SMEs and start-ups tend to be more internationally focused the wealthier and smaller their domestic economy (EIM 2010a; Bosma and Levie 2010).
- Internationally active businesses are more likely to be, or to grow into, very large firms (Di Giovanni et. al. 2010). Even in fairly large economies, SMEs typically have no option but to export if they wish to grow substantially (Blackburn et al. 2008).[19]
- International activity can spur SMEs to upgrade their human and technological capital in order to meet the demands of supply chain partners, thus improving productivity (OECD 2007b). This is particularly true of SMEs in low income countries (ADB 2009).

Owing to the link between SME internationalisation and growth, the former has become a major objective of policy in most countries (OECD 2006a). Although such policies can sometimes border on protectionism (Hall 2007), there is clearly a sound economic rationale for business support in this area that does not distort international markets.

Such support focuses on embedding SMEs in global supply chains, whether of large businesses or governments, which SMEs can then follow in their physical expansion. Under this approach, SMEs are seen as specialising in intermediate inputs, often acting as subcontractors several levels down from the ultimate buyer. In fact, given the right level of industrial clustering, even SMEs with no direct imports or exports can be important players in modern supply chains, in which firm-level fragmentation of production processes and industry-level agglomeration coexist (Lim and Kimuna 2009).

19. Blackburn et al. (2008) found that the link between high growth and exports did not hold in the US. Since the US and UK were the 1st and 6th largest economies in the world respectively in 2009, the implication is that only a handful of countries (five at the most, and possibly much fewer) can realistically support domestically focused populations of high-growth SMEs.

Figure 5: How SMEs figure into global value chains



Source: Lim and Kimuna (2009)

MAKING INTERNATIONALISATION POSSIBLE

From the export figures cited above, it is clear that SMEs' share of exports is typically lower than their contribution to domestic employment or value added. This is because, for all its benefits, SME internationalisation is a difficult proposition.

Table 4 summarises the chief barriers to SME internationalisation as perceived by entrepreneurs and policy-makers. Would-be international enterprises need to stay abreast of market and public policy developments in one or more foreign markets, and navigate the bureaucracy of foreign countries in addition to their own domestic rules, often with little local knowledge or resources. They need to adopt new working practices and quality standards, overcome barriers in language and business culture as well as limitations in the skills and outlook of their own management and staff. They need to make provision for late payment and enforce claims against customers in unfamiliar legal systems; they also need to provide for exchange rate volatility, usually without access to efficient hedging products or the option of structural hedging. Internationalisation is further complicated by the need to establish and maintain partnerships with larger organisations which, in addition to their often different business practices and culture, are also typically the senior partner in unequal relationships. There is evidence that those SMEs that are fully integrated into supply chains are particularly adept at managing these to their advantage (Kalantaridis and Vassilev 2010).

Finally, the spectre of protectionism hangs over SMEs as much as it does over large businesses – possibly more so, as their foreign competitors are also likely to be SMEs and thus eligible for preferential treatment by their own governments. Although free trade agreements can in many ways make it easier for SMEs to work across borders, the burden of compliance can be a major disadvantage if multiple bilateral agreements have to be navigated by the same business (Thorbecke et al. 2010).

Much of the above is clear to policy-makers. However, as Table 4 demonstrates, their approach can often blind them to policy-related barriers other than direct protectionism (Lloyd-Reason and Mughan 2006) and overemphasise barriers of a commercial nature which successful international SMEs rarely appear to have needed any help dealing with (Kalantaridis and Vassilev 2010).

In response to the above analysis, the OECD has identified the following priorities for national policy-makers committed to assisting in the internationalisation of SMEs.

- Increasing SMEs' awareness of opportunities by helping them to understand both the advantages and the feasibility of becoming a subcontractor for a foreign firm through accurate information and analysis.
- Increasing SMEs' participation in global value chains through facilitation of SME consortia or promotion schemes for potential suppliers.
- Improving supplier financing, by helping cement faith in SMEs' receivables, helping them overcome liquidity problems, and developing appropriate financial instruments.
- Promotion of technological upgrading, by support for training and capacity building, promoting international knowledge and technology transfer partnerships, and improving access to appropriate types of finance.
- Enhancing intellectual property (IP) protection, by adopting the OECD guidelines for multinational enterprises (MNEs) in national policy, and in particular provisions for technology transfer and IP protection.
- Facilitating compliance procedures, by simplifying and reducing the costs of compliance with standards, and of the certification associated with these.
- Promoting skills development, including both technical and managerial skills, to allow SMEs' staff and management to adapt to the needs of global supply chains
- Attracting FDI so that foreign multinationals can transfer technology and knowledge to local SMEs.
- Promoting the development of industrial clusters in order to develop economies of scale and agglomeration, complementarities between specialist SMEs, and a specialised local labour force.
- Development of domestic industries and services networks in developing countries so that they can link up to global value chains, including through the use of Official Development Assistance (ODA) (OECD 2007b).

Table 4: Barriers to SME internationalisation as ranked by SMEs and OECD/APEC member policy-makers

	Ranked by SMEs	Ranked by policy-makers
Barriers ranked in the top 10 by SMEs and policy-makers		
Shortage of working capital to finance exports	1	2
Identifying foreign business opportunities	2	4
Limited information to locate/analyse markets	3	3
Inability to contact potential overseas customers	4	6
Lack of managerial time to deal with internationalisation	6	5
Inadequate quantity of and/or untrained personnel for internationalisation	7	1
Barriers ranked in the top 10 by SMEs only	**Ranked by SMEs**	**Ranked by policy-makers**
Obtaining reliable foreign representation	5	-
Difficulty in matching competitors' prices	8	-
Lack of home government assistance/incentives	9	-
Excessive transportation costs	10	-
Barriers ranked in the top 10 by policy-makers only	**Ranked by SMEs**	**Ranked by policy-makers**
Developing new products for foreign markets	-	7
Unfamiliar foreign business practices	-	8
Unfamiliar exporting procedures/paperwork	-	9
Meeting export product quality/standards/specifications	-	10

Source: Lloyd-Reason and Mughan (2006)

7. Beyond good citizenship: building sustainable SMEs

THE STATE OF PLAY

Part of the moral appeal of SMEs discussed in Section 2 is that they are seen as embedded in local communities, and are rarely associated with high-profile failures to protect customers, employees, communities or the environment. The average business is very small and its impact in this regard can be extremely limited. In fact, a substantial share of the SME population in developed countries, and more so in developing countries, have almost no sustainability footprint at all because they are home-based (Strasseman 1987; Mason et al. 2008).

However, as Section 2 also demonstrated, SMEs in total employ two thirds of private sector employees and produce about half of the private sector's output. Despite their relative over-representation in low-impact industries, and due partly to substantial levels of waste, their share of key inputs such as energy and of serious industrial pollution incidents can be only marginally lower than their contribution to GDP (Vickers et al. 2009).[20]

In the past, an emphasis on large organisations in sustainability research, practice and standard-setting has meant that relatively little was known about how most of the global economy can become more sustainable (Plugge and Wiemer 2008). Policy-makers applying the 'think small first' principle (see Section 3) have been reluctant to propose extending formal obligations to smaller enterprises, in order to avoid raising barriers to entry. While this approach has been justified, framing the debate on SMEs and sustainability in terms of regulation or no regulation has restricted its potential.

There are signs, however, that this approach is now shifting to a more holistic view, where SMEs have a role to play in, and much to gain from, sustainable business, and that alternatives to regulation can build on these incentives (Plugge and Wiemer 2008). It is also increasingly clear that a host of challenging sustainability goals, from gender equality to environmental protection or the alleviation of poverty, will be that much less achievable if large corporates and governments are set overly ambitious targets in order to make up for a disengaged SME sector.

From the point of view of small businesses, the most effective drivers of sustainable practices are pressure from larger customers (including governments) in global supply chains and the shifting preferences of consumers. The state of play is perhaps best summarised by the following review from Forstater et al. *(*2006).

> *For a minority of SMEs able to link into growing niche markets for fair trade, organic and green products, responsible trade represents an opportunity to win new customers, gain a premium price and access developmental relationships with trading and investment partners. However, the size and scope of these markets, although growing, is still extremely limited.*
>
> *For a greater number of SMEs seeking to enter international supply chains, social and environmental conditions are a challenge, which increasingly must be met in order to gain to market access. However, whilst compliance is a competitive issue in so far as suppliers can lose contracts through non-compliance, meeting social and environmental standards alone is not enough to win and retain customers.*
>
> *For the vast majority of SMEs who produce for local markets, responsible trade has had little impact and even amongst those within export supply chains, many remain in sectors and supply tiers thus far not touched by the emerging standards and certification requirements. But if current trends continue, other sectors and suppliers within them will also be impacted by new social and environmental conditions.*

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20. UK figures suggest that SMEs are responsible for 45% of total energy use, 43% of serious industrial pollution incidents and 60% of all commercial waste; additionally, 31% of their energy usage is due to waste.

GLOBAL SUPPLY CHAINS AS A DRIVER FOR SME SUSTAINABILITY

Of the three possible motivations (regulation, consumer demand and supply chain pressures), it appears that supply chains are the most promising route for SME engagement in sustainable business practices. Because a business's operations and supply chain are rarely transparent to the wider public, there is always a risk that SMEs motivated by consumer demand will focus on adaptations that are easy and do not require extensive operational changes or investment (AFS and Net Balance 2010). Governments can find it nearly impossible to monitor, let alone enforce, sustainable practices, due to the depth and complexity of supply chains (Smallbone et al. 2008). Supply chain partners, on the other hand, have a distinct advantage in that they can combine knowledge of, and control over, the operations of SME suppliers with the supply of know-how and standardisation (Plugge and Wiemer 2008). Crucially, participation in global supply chains has the capacity to stimulate among SMEs the kind of investment and innovation required for the development of high-impact sustainable business practices (OECD 2007b).

With the role of SMEs in international trade growing ever larger (see Section 6), supply chain pressure ought to be a viable means of pursuing sustainability objectives; it is equally present in developed and developing countries and even the smallest businesses could be tied to one or more global supply chains as lower-tier sub-contractors even if they have not directly sought out any overseas customers. It does, however, carry its own risks. Supply chain standards can create barriers to entry in exactly the same way as regulation; more importantly, the use of subcontractors is often an asymmetric relationship driven by considerations of economic power; what are portrayed as sustainability standards can in some cases be management and financial control systems with little relevance to sustainability outcomes (Sacchetti and Sugden 2003).

REPORTING AND STANDARDS

One implication of the supply-chain approach to sustainability is that the development of global standards of practice, reporting, auditing and certification is paramount. Sustainability reporting has been shown to deliver substantial benefits to SMEs. These include: the achievement of competitive advantage and leadership; improved internal processes and goal-setting; and enhanced reputation, trust and respect (Plugge and Wiemer 2008). SMEs, however, are standards-takers, meaning they have little influence over the sustainability standards they are subject to (Forstater et al. 2006). This suggests that if standards are not built in a bottom-up fashion (see Section 3) or if different partners require adherence to different standards, the compliance costs for SMEs could be prohibitive.

To date, there is no global sustainability reporting standard focused on SMEs. The Global Reporting Initiative (GRI), the foremost global standard setter in the area of sustainability reporting, offers support and resources to SMEs that wish to prepare GRI-compliant sustainability reports, and is engaged in researching the implications for SMEs of introducing transparency in the supply chain (Plugge and Wiemer 2008). While this is still a top-down approach to sustainability for SMEs, it is an encouraging and promising development.

8. SMEs in the 2008–9 economic downturn

The global downturn of 2008–9 generated a vast amount of economic data as policy-makers, market participants and commentators agonised over the state of the global economy. Information on macro-economic indicators and the performance of listed companies is in abundant supply. However, the experiences of SMEs, and with it the trends affecting most of the private sector's output and employment, are less accurately documented.

In October 2009, the Economist Intelligence Unit (EIU) published a survey of SMEs' performance and access to finance during the downturn, commissioned by ACCA in collaboration with CGA-Canada and CPA Australia (EIU 2009). Using the EIU findings as a benchmark, and complementary data from ACCA's Global Economic Conditions Survey,[21] it is possible to reconstruct the path of the downturn and recovery from the perspective of SMEs, especially small and micro-enterprises.

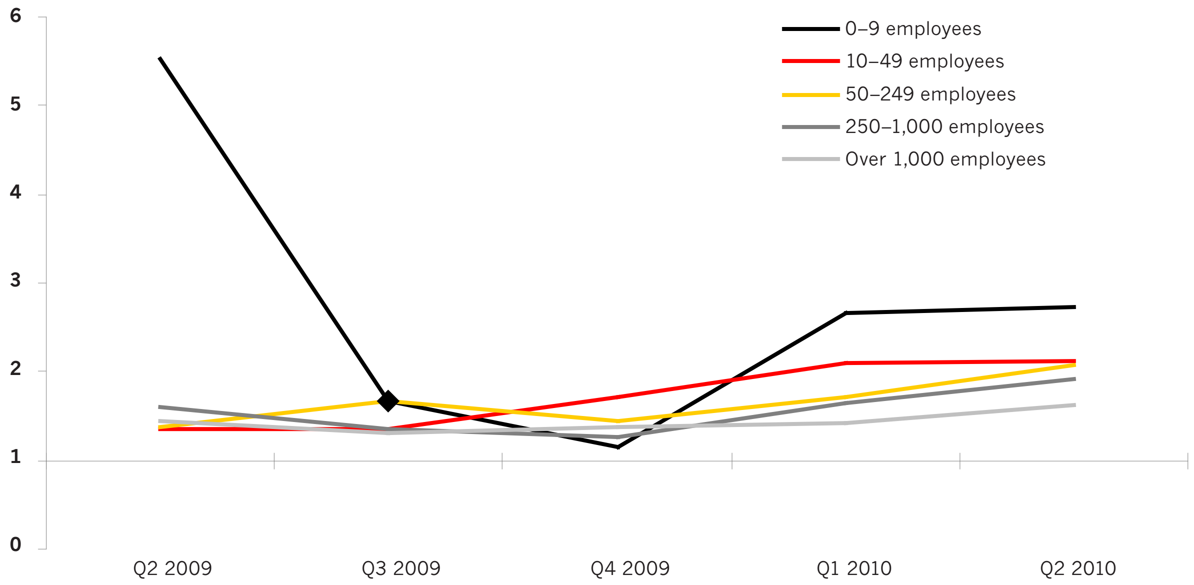
EMPLOYMENT

The 2009 EIU study revealed that the SME sector globally continued to create jobs throughout the downturn. The outlook for employment remained conservative, especially when considered against the expected increases in revenue, with the exception of SMEs in the Asia-Pacific region and Africa, where many national economies never stopped growing.

Throughout the recovery the smaller employers were more likely to hold on to their staff. This hoarding of valuable talent, at the expense of cash flow and the bottom line, meant that the smallest businesses could remain well-positioned for growth. However, it also left them exposed to changes in demand, or in the supply of finance. Evidence from ACCA's member surveys suggests that micro and small enterprises are more sensitive to such shocks than are larger organisations. On average, a micro enterprise facing poor demand conditions is about three times as likely to lay off staff as one that is not challenged in this regard, but the gap tends to widen under stressed economic conditions (See Figure 6).

21. The data used are sourced from ACCA's global economic conditions surveys, Q2 2009 to Q2 2010. This pooled sample consists of 7,014 responses, of which: 896 are from members in organisations with fewer than 10 employees; 1,109 from members in organisations with 10 to 49 employees; 1,353 from members in organisations with 50 to 249 employees; 1,178 from members in organisations with 250 to 1,000 employees; and 2,413 from members in organisations with more than 1,000 employees. See Appendix 2 for detailed findings.

Figure 6: Sensitivity of staff cuts/hiring freezes to income shocks by business size



FINANCE AND CASH FLOW

Few aspects of the 2008–9 downturn have received more attention than access to finance for SMEs. Broadly speaking, the 2009 EIU study reported a painful rationing of finance throughout most of the world. As banks reduced their exposure to the SME sector, other providers of finance were unable to step into the gap, and equity investors in particular withdrew even further, broadly in line with historical precedent (Ruis et al. 2009; see Table 5).

Table 5: Estimated changes in financial flows to EU SMEs under different GDP contraction scenarios, based on historical data

Assumed % change			
GDP growth	-1.5%	-2.5%	-4.0%
Expected % change			
Bank loans to small enterprises	-3.0%	-5.0%	-7.9%
Bank loans to medium-sized enterprises	-4.4%	-7.4%	-11.8%
Factoring	-10.3%	-17.1%	-27.4%
Leasing	-6.8%	-11.4%	-18.2%
Venture capital	-19.2%	-32.1%	-51.3%

Source: Ruis et al. (2009)

Evidence from ACCA's member surveys suggests that micro and medium-sized enterprises have been hit harder by shortages of finance, although the effect on micros can often be disguised in surveys owing to their reduced reliance on debt and diminished or discouraged demand for loans. Further analysis of the survey evidence, however, suggests that SMEs with access to value-added opportunities continued to enjoy substantially better access to finance than those without – which suggests little evidence of full-blown market failure. That said, lenders to small businesses reacted to the downturn by demanding more security or guarantees and emphasising forward-looking information such as cash-flow forecasts and industry trends (*The Banker and* IFAC 2009). The EIU study also revealed a trend towards increasingly formulaic approaches to loan applications, placing small and young businesses at a disadvantage (ACCA et al. 2009).

Partly owing to lenders' emphasis on cash flow, access to finance for SMEs has been strongly correlated to liquidity conditions on the ground, most notably the incidence of late payment and distressed customers. Both became a substantial problem during the downturn as troubled businesses multiplied and most enterprises tapped their suppliers for credit. Small and micro enterprises appear to have been the most affected by late payment, although this appears to be owing to a lack of diversification in their income streams. SMEs appear to have responded to this challenge constructively, with the EIU survey showing that, for every SME that entered the downturn cash-rich and emerged cash-poor, two had done the reverse.

CUSTOMER RELATIONS

The EIU study identified the strength of SMEs' relationships with their customers as their most important asset in the recovery. This may not have been simply a reaction to falling demand, which ranked as only a moderate concern for SMEs and was no more severe for smaller than for larger businesses. It may also have been a reaction to poor cash-flow conditions, as the EIU study found that renegotiating payment terms with suppliers and customers was the most common response to poor cash flow apart from cost-cutting.

Although evidence on the development of customer relations during the downturn is scarce, ACCA's member surveys suggest that the emphasis given to supply chain relationships did not vary substantially among businesses of different sizes and SMEs were, if anything, less responsive to changes in customer demand than larger organisations. This could confirm ACCA's fears that managing customer relationships as a business asset would be a challenge for SMEs (ACCA et al. 2009).

COST-CUTTING AND INVESTMENT

Given the twin pressures of the credit crunch and falling demand, it comes as no surprise that SMEs, especially larger ones, responded to the downturn by trying to cut costs in order to free up cash and become more competitive. However, the findings of the EIU study showed that only a fraction of the cost-cutting efforts of SMEs were accompanied by a formal cost-cutting plan, potentially jeopardising the capacity of businesses in the recovery.

The EIU study of 2009 found that a substantial number of SMEs cancelled or postponed investments in the face of weak demand and tough credit conditions. ACCA's survey evidence suggests that this trend was not entirely because of a decrease in the number of profitable opportunities, and that investment often fell among businesses looking forward to robust turnover growth owing to a shortage of finance and an overriding emphasis on cutting costs. Overall, investment among the smallest businesses fell less during the downturn (in line with a lower emphasis on cost cutting), but also recovered more slowly as opportunities dwindled and the supply of funding failed to pick up.

INTERNATIONALISATION

Headline findings on the state of the SME sector can conceal very substantial regional variations. The EIU's findings in 2009 suggested that the SME sectors of the Asia-Pacific region, as well as Africa and the Middle East, were outperforming the rest of the world as the economic recovery unfolded. This was in line with findings from ACCA's member surveys – which saw these regions lead the recovery in terms of business confidence and optimism.

The sharp divergence of growth patterns between developed and developing countries increasingly meant that opportunities for SMEs around the world were more likely to lie overseas. However, 44% of the SMEs surveyed by EIU in 2009 said that tightening credit conditions had dented their capacity to expand into new markets – with medium-sized businesses perhaps less affected than others. This was the case regardless of confidence and revenue growth, which suggested that falling demand, combined with a disruption in trade finance, had taken its toll on exporters. OECD countries, especially those in Europe, achieved much lower rates of growth and small business internationalisation in the recovery, which suggests that internationalisation within the developing world accounted for most of the new volume of international small business activity. This is further corroborated by the number of bilateral trade approaches between developing countries focused on providing international opportunities for the SME sector – a little-publicised but persistent theme in the policy response to the downturn (EIU 2010).

INNOVATION AND PRODUCTIVITY

Commenting on the 2009 EIU study, ACCA noted that the employment and revenue growth anticipated by SMEs globally simply did not add up unless substantial productivity gains could be achieved (ACCA et al. 2009). However, with investment still very subdued, these were unlikely to materialise – 47% of the EIU sample believed the economic downturn had dented their capacity for innovation. The appetite for innovation continued to fall among SMEs (and even some larger firms) during the recovery, even after the global economy had stabilised.

With regard to productivity, ACCA's member surveys suggest that the window of opportunity for SMEs to achieve 'win–win' efficiency gains (opportunities involving not just cost cutting but also value-added interventions) was at its widest during the early days of the recovery (until Q3 2009), and began to close rapidly as the global economy stabilised. Medium-sized businesses, on the other hand, especially in developed countries, appear to have had marginally more organisational 'slack' to work through, with win–win efficiencies peaking a quarter later. Overall, the potential for strong efficiency gains appears to have been smaller for small and micro enterprises throughout the recovery.

GOVERNMENT SUPPORT

Evidence from ACCA's member surveys (ACCA 2009a) suggests that accountants in micro enterprises and small businesses have been less approving of government responses to the downturn, despite a range of measures worldwide targeted directly at SMEs (see Appendix 2). Once other relevant variables – such as sector, country, region, as well as potential biases – were taken into account, some interventions appear to have been genuinely less effective for smaller businesses, and some have carried more weight than others in shaping SMEs' perceptions of government support.[22]

Government spending and public procurement

Smaller businesses have often faced barriers to accessing the public procurement market. Even quotas or SME access targets have occasionally been overridden or proven counterproductive. Developments in this area were watched particularly closely by small financial services firms.

General business support

For larger businesses, government support in the downturn often entailed powerful interventions from the political leadership, while smaller businesses generally had to make do with the often inadequate public business support infrastructure. Other things being equal, accountants working in micro enterprises appeared to treat developments in this area as irrelevant.

Assistance to financial services firms

Although support for banks was not seen as having a proportionate effect on the supply of finance to small businesses, the resulting deterioration in government finances threatened them with larger tax bills in the future. Other things being equal, SMEs in the real economy were less likely than those in financial services to base their perceptions of government action on developments in this area.

Access to finance for businesses

Smaller businesses have often found it difficult to access governments' financial support programmes, such as guarantee schemes. Developments in this area were equally significant for all SMEs.

Sector-specific business support

Sector-specific business support may have been too focused on protecting clusters of high-profile ailing businesses, while their supply chains received less attention. Such developments were equally significant for all SMEs.

22. The analysis of effectiveness was obtained by running a set of multinomial regression analyses in which the effectiveness ratings for different interventions were the dependent variables and all identifier variables (role, experience, size, sector, country and region) were introduced as independent variables. The interventions reported on here are the ones for which likelihood ratios of the size variable were statistically significant. The analysis of influence was obtained by correlating ratings of government effectiveness to ratings of individual interventions as well as business size and sector variables and their interactions, using ordinal regression analysis.

9. Conclusions

Based on the latest figures available, we estimate the SME sector's contribution at 52% of global private sector output and 67% of employment, which is probably the most comprehensive estimate currently available. More accurate measurements, and more aspects of the SME agenda besides, are frustrated by the lack of a common SME definition; we note, however, that there are hints of convergence around definitions to which large flows of funding and/or business support are attached, most notably those adopted by the EC, UNIDO and the World Bank – establishing the 250–300 employee threshold as a zone of potential consensus. It is not clear, at any rate, that further convergence is necessary as business size is an ill-defined concept and by no means the most important determinant of business's diverse needs and challenges.

In light of the substantial economic and social contribution of SMEs, policy-makers are understandably keen to explore how their potential can be maximised. The evidence so far, however, is sobering, and suggests that business support interventions at the micro level may not be as effective as getting the macro-policy variables right in the first place. This approach is consistent with the fact that the SME sector is more important in more developed countries, partly because a large proportion of enterprises which would be informal in a poor regulatory or institutional context, have an incentive to join the formal sectors of more developed nations. All things considered, a small group of macro-policy variables appear to be fundamental to the growth of a large and dynamic SME sector:

- a highly educated population
- high levels of financial development
- efficient start-up and bankruptcy regimes
- high-quality institutions
- efficient regulation
- efficient protection of property rights
- good access to finance
- public infrastructure
- low levels of corruption

Getting the policy and regulatory framework right for SMEs is a challenge to which the 'Think Small First' principle is often proposed as a solution. ACCA is a passionate proponent of this, but we note that its meaning is often misunderstood. Thinking small first is not a matter of subsidising SMEs at every turn, but of ensuring that regulations and policies support them from the bottom up, in a manner that is proportionate to their impact and resources and ensures a level playing field.

Despite the superior performance of macro-interventions, policy-makers do occasionally need to intervene at the micro-level to improve SME demographics and facilitate SME growth. Most businesses are born small and die small, but many do not need to; moreover, a small entrepreneurial minority of firms end up making a substantial difference in terms of employment and innovation. Again, policy-makers need to exercise caution: business growth is not a regular process and it is very difficult for even experienced investors to pick out promising ventures; moreover private sector providers of support and advice can often serve the needs of SMEs much more efficiently than government agencies. Access to finance should be a particularly high priority for policy-makers, as the shifting needs and risk profiles of growing businesses create genuine funding gaps which can make all the difference to the prospects of the most promising businesses.

It is important to appreciate that there is no one correct set of policy priorities in support of the SME sector, and that no one government agency can 'own' SME policy. Policy-makers must acknowledge the diversity of SMEs and their needs and, as a minimum, accept the possibility that two separate approaches may need to be pursued at once. One is the more dynamic 'enterprise agenda', focused on skills, finance, support and enterprise education, while the other is the more conservative 'SME agenda' of increasing productivity, improving market access and improving management capabilities.

One area in which the two overlap is the strong link between international activity and SME growth: there are only a handful of countries in the world big enough to sustain high-impact SMEs that are not internationally active. Up until the economic downturn of 2008–9, international SMEs and 'born global' start-ups were growing in influence, taking advantage of the opportunities provided by the Internet and by ever-deepening global supply chains. In all probability, SMEs accounted for about one-third or more of exports globally, and more than one-tenth of foreign direct investment when the crisis hit, and it was not just the largest SMEs that were seizing international opportunities (see Section 6).

Despite these encouraging trends, internationalisation is still a very substantial challenge for SMEs, and policy-makers may not always appreciate the relative importance of different barriers. Shortages of finance and local information in particular can be crucial impediments. There is no shortage of prescriptions for promoting internationalisation but we note that none are straightforward, and all require that policy-makers partner with trusted intermediaries and business advisers.

One particularly important implication of the increasing internationalisation of SMEs is that policy-makers at the global level can use the supply chains of large organisations as an important channel for engaging SMEs in the sustainability agenda. SMEs have a substantial role to play here; although individual businesses may have only minimal impacts, the sum of these may be comparable to SMEs' share of global output. We note in particular that, if the SME sector is unable to contribute its share of the adjustment to more sustainable practices, the concessions required of large corporates and the public sector may turn out be unrealistic. Greater convergence in standards of sustainability practice, reporting and auditing would maximise the effectiveness of the supply chain approach, but unfortunately there is as yet very limited evidence of such convergence.

Finally, some important lessons on the medium-term prospects of the SME sector can be drawn from the economic downturn of 2008–9.

- Employment and output in SMEs is not immediately sensitive to macro-economic shocks but can be particularly sensitive to double-dip patterns – making any slowing of economic growth much more dangerous than the headline figures would imply.

- The global market for SME finance globally is quite resilient, despite very substantial imperfections and a contraction in both supply and demand in response to macro-economic shocks. The effect of these imperfections on international trade is particularly important.

- SMEs may be failing to capitalise on some of their most important assets – most notably the depth of customer relationships that sustained them during the downturn.

- Governments' response to the downturn has been much less effective from the point of view of SMEs, especially micro enterprises. Business support mechanisms are largely irrelevant to the smallest businesses, while tax and regulation are almost universally acknowledged as important.

- Internationalisation of SMEs can still take place in the face of adverse economic conditions, although in the case of the recent downturn it has been driven mostly by intra-regional cooperation within the developing world.

- The window of opportunity for SMEs to invest and build capacity during economic recovery is very brief and has generally closed by the time the majority of economies have returned to growth. Low levels of investment among SMEs do not augur well for the sector's growth during recovery.

Appendix 1: Contribution of SMEs to national economies

Table 1: SME definitions and economic contribution in selected ACCA markets

Top 20 ACCA Markets by size	SME Threshold	% of enterprises		% of employment		% of value added		Business entry rate (new SMEs as % of business stock)		Total early stage enterprise activity, % of working pop.		Informal economy as % of GDP	
UK	250 employees, €50m turnover, balance sheet total of €43m	99.9	a	59	a	51	b	18	q	6	d	11	f
Malaysia	50 full-time employees, RM5m turnover (primary agriculture and services); 150 full-time employees, RM25m turnover (manufacturing)	99.2	n	56	n	32	n					33	g
Singapore	200 employees (non-manufacturing); S$15m in fixed assets (manufacturing)	90.0	o	62	p	42	bn	19	q	5	ak	14	g
China	Employment criteria vary from 200 employees in wholesale and retail trade to 2,000 in manufacturing and 3,000 in construction, transport and communications. The turnover threshold is typically RMB300m, (RMB150 in the hospitality sector). A balance sheet threshold of RMB400m applies in construction and manufacturing. Note that in China non-independent businesses can also be classified as SMEs.	99.7	j	88	j	60	j			16	e	14	h
Ireland	250 employees, €50m turnover, balance sheet total of €43m	99.5	b	69	b	52	b	10	q	8	d	13	f
Pakistan	250 employees, RS250m turnover, RS50m paid up capital (harmonised since 2005)	90.0	y	78	y	30	y					40	g
Russia	250 full-time equivalent employees, RUB1bn turnover (subject to 5-year review), 25% share ownership by foreign companies, public sector organisations or charities	94.0	ae	49	ae	21	v	15	q	4	d	52	g
Hong Kong	100 employees in Hong Kong (manufacturing); 50 employees in Hong Kong (non-manufacturing)	98.0	af	50	bo	21	ag	15	q	10	e	19	g
Canada	500 employees, $50m turnover	99.8	ah	70	bg	45	bg	8	q	8	al	13	f
Poland	250 employees, €50m turnover, balance sheet total of €43m	99.8	b	69	b	52	b	5	r	9	am	29	g
Australia	20 employees (services), 200 employees (manufacturing)	99.7	ai	64	aj	50	aj	14	q			11	f

Top 20 ACCA Markets by size	SME Threshold	% of enterprises		% of employment		% of value added		Business entry rate (new SMEs as % of business stock)		Total early stage enterprise activity, % of working pop.		Informal economy as % of GDP	
Nigeria	200 employees, N500m balance sheet (excluding land and buildings)	87.0	s	75	s	10	s					63	i
United Arab Emirates	Thresholds vary among the Emirates, some of whom have no official definition. Current Dubai threshold is 100 employees and AED100m turnover: an official UAE-wide definition is currently being considered	99.0	t	63	t	46	bc			4	ak	29	i
US	Varies widely, although a 500-employee cut-off is often used. Employment thresholds are mainly applied to manufacturing, retail and wholesale trade. Typically around 500 employees, but can range from 50 for gas dealers and 100 for wholesalers up to 1,500 for oil refineries and pipeline operators, telecoms, and aircraft manufacturers. For most service sectors, as well as agriculture, farming and construction, turnover thresholds are used, ranging from $750,000 for primary agriculture to $33.5m for construction and $34.5m for some medical services	99.9	l	58	l	51	m	13	r	9	d	8	f
Trinidad and Tobago	50 employees, TT$5m in assets, TT$10m turnover	95.0	k	34	x	28	x					37	g
Cyprus	250 employees, €50m turnover, balance sheet total of €43m	99.9	b	84	b	78	b	11	r			29	g
Mauritius	200 employees, MR10m investment in equipment (manufacturing firms only)	90.0	ac	45	ad	22	ab					24	g
Ukraine	Current laws only acknowledge small business status; the threshold is 50 employees, HRN. 70 million turnover. Ukraine is, however, in transition to the EU definition (250 employees, €50m turnover, balance sheet total of €43m)	85.0	u	24	u	16	u	8	q			58	g
Ghana	100 employees, $100,000 in fixed assets	92.0	aa	16	aa	22	ab					43	g
Kenya	100 employees, KSH800m turnover. No balance sheet threshold exists for medium-sized businesses, although KSH50m in plant and machinery investment or KSH20m in equipment investment are thresholds for small business status			28	bk	18	z					39	g
Total ACCA Top 20				**77**		**50**						**13**	

DATA SOURCES

a. BIS (2009)

b. EIM (2010b)

d. 2008 estimates from the Global Entrepreneurship Monitor (GEM)

e. 2007 estimates from the Global Entrepreneurship Monitor (GEM)

f. Preliminary 2009 estimates from Schneider (2009)

g. 2007 estimates from Schneider et al. (2010)

h. 2007 estimates from Schneider et al. (2010)

i. 2006 estimates from Schneider et al. (2010)

j. 2007 estimates from Liu (2007)

k. 2007 estimates from Trinidad and Tobago Central Statistical Office *Business Survey 2007*. This estimates excludes all businesses that were unclassified by size band

l. 2006 estimates from SBA (2009). Note that all estimates refer to businesses with fewer than 500 employees

m. 2004 estimates from Kobe (2007)

n. 2008 estimates reported by SME Corp Malaysia

o. 2007 estimates reported by Dr Manu Chandaria, EBS, OBE

p. 2004 estimates reported by Singapore Department for Statistics, services sector only

q. 2007 estimates from World Bank *Global Survey of Entrepreneurship 2008*

r. 2005 estimates from World Bank *Global Survey of Entrepreneurship 2006*

s. 2006 estimates from SME Development Agency and estimates from Vision 2020 Technical Working Group (2009). Note that the panel believes the employment figures to be inflated by inactive ‘employees’

t. 2007 estimates extrapolated from 1995 census and other data in Hertog (2010)

u. 2008 estimates from the State Statistics Committee of Ukraine. Turnover proxy is used here for share of value added. This may overestimate the share of small businesses.

v. Evidence cited by Andrey Sharov, Director of the Department for SME Development, 2009

w. Estimate reported by Alpha-Bank, 2007

x. Inter-American Development Bank (IADB) and Trinidad and Tobago Central Bank Estimate, 2008 Cited in Williams (2009). Extrapolated with 2008 workforce estimates from the Trinidad and Tobago Central Bank

y. Estimates for 2003–04 cited in SMEDA (2007). Note that this refers to establishments with fewer than 100 staff, not SMEs under the current definition, which was established in the 2007 SME Policy

z. Kauffmann (2005)

aa. Kayanula and Qartey (2000)

ab. OECD (2005). Note that this figure is provided as the top of an unspecified range of estimates

ac. Estimates cited in Padachi (2006)

ad. Estimates cited by Ernst and Young with reference to the 2010 Budget

ae. Estimates for 2002–03 from Russian SME Resource Centre (2004). Turnover proxy is used for value added

af. 2009 estimates from Hong Kong Trade and Industry Department (2009)

ag. 2004 estimates from McKinsey and Co in Barton (2004)

ah. Pothier (2003)

ai. Mid 2006 estimates from Australian Bureau of Statistics, 'June 2003 to June 2006 – Counts of Australian Businesses, Including Entries and Exits', February 2007

aj. Castalia Strategic Advisors (2009)

ak. Estimates from the 2006 Global Entrepreneurship Monitor

al. Estimates from the 2003 Global Entrepreneurship Monitor

am. Estimates from the 2003 Global Entrepreneurship Monitor

an. Estimates from the 2005 Global Entrepreneurship Monitor

ao. Cabello (2010)

ap. 2005 estimates from *Statistics Iceland* (assuming 250 staff cut-off and including non-employers)

aq. 2008 estimates from New Zealand Ministry of Economic Development (2009). Note that this only includes firms with up to 20 employees, a much lower threshold than elsewhere

ar. 2007 estimates from OECD Structural Business Statistics. This refers to businesses at National Size Classes 1-4

as. 2005 estimates from OECD Structural Business Statistics. This refers to businesses at National Size Classes 1-4

at. 2006 estimates from OECD *Structural Business Statistics*. This refers to businesses at National Size Classes 1-4

au. Latest estimate from the Associated Chambers of Commerce and Industry in India (ASSOCHAM). Note that MSME (2010b) estimates the contribution of SMEs at around half this level

av. Estimate from MSME (2010b)

aw. Lages (2008)

ax. 2005 estimates from Ben-Ishai and Yago (2010)

ay. 2005 estimates from USAID (2007) GVA figures are proxied by turnover

az. FDEA (2009)

ba. Audretsch et al. (2009)

bb. 2006 estimates from OECD (2007c)

bc. Estimates reported by Brand Central, September 2009. Note that the SME definition used here varies from official ones

bd. 2006 estimates from the Korean SME Administration. 2007 GDP estimate for manufacturing only

be. Early 2000s estimates for the formal sector only, from Abor and Quartey (2010)

bf. 2000–2 estimates reported by Bali International Consulting Group

bg. 2005 estimate reported by the Conference Board of Independent Business

bh. UN Advisors Group on Inclusive Financial Sectors (2008). Formal businesses only.

bi. Lowest end of range estimate for family businesses from Biasone (2008)

bj. Estimate based on the top of the range of Ayyagari et al. (2003) estimates of SMEs' share of GDP for high-income nations. Estimates of the sector's share of GDP are quite elusive and largely absent from government literature

bk. Estimated 2003 figure extrapolated from data on SME employment from Kauffmann (2005), and 2003 estimate of the Kenyan labour force from Index Mundi

bl. 2006 estimates from World Bank *Global Survey of Entrepreneurship 2007*

bm. 2004 estimates from World Bank *Global Survey of Entrepreneurship 2005*

bn. Latest estimates reported by the Ministry of Trade and Industry

bo. Latest estimates reported by the Department for Trade and Industry

A NOTE ON THE CONTRIBUTIONS OF MICRO AND SMALL BUSINESSES

Few official SME definitions are refined to include any sub-groups, and statistics on the contribution of small and micro enterprises are very difficult to acquire, let alone compare. Across countries, micro enterprises make up the majority of businesses and it can be shown that businesses with fewer than 50 employees account for a substantial share of SME employment; estimates range from 23% in China and 30% in Malaysia (EIU 2010) to 50% in the EU-27 (EIM 2010b) and well over 52% in the US (SBA 2009).[23]

The theory and empirical evidence presented in Sections 2 and 5 suggests that the contribution of small businesses (10–49 employees) and especially micro enterprises (0–9 employees) should rise with increased economic development. Micro enterprise activity exhibits the strongest inverse relationship with the size of the informal economy, and should therefore benefit most from economic development. On the other hand, increasing openness to international trade should increase the contribution of medium-sized business at the expense of those of small and micro enterprises (see Section 6 for evidence).

The contribution of micro enterprises to private sector output should generally be smaller than may be implied by their share of employment, because they are less productive than the SME average. This is even truer of informal micro enterprises (Batini et al. 2010). Small businesses, on the other hand, should make a contribution to output roughly in line with the contribution to employment – perhaps even more in developed countries. In Europe, for example, micro enterprises (See Section 1 for definition) are estimated to produce 18% less value added per employee than the average SME, while small and medium-sized businesses produce 6% and 23% more per employee respectively (EIM 2010b).

23. The US figure provided here refers to businesses with fewer than 20 employees; the contribution of businesses with fewer than 50 employees may be considerably larger than this.

Appendix 2: SMEs in the global economic downturn – statistical analysis tables

Table 6: Mean ratings for aspects of the policy response to the downturn in the year to October 2009 by organisation size

Aspects of government response	Micro (0–9 employees)	Small (10–49 employees)	Medium (50–249 employees)	250–1,000 employees	over 1,000 employees
Public sector spending and procurement	3.05	2.89	3.28	3.46	3.43
Business law and regulations	2.90	2.93	3.17	3.24	3.26
Individual tax	2.59	2.64	2.90	2.94	2.98
Corporate tax	2.92	2.99	3.07	3.15	3.16
Assistance to financial services firms	2.99	3.10	3.19	3.45	3.44
Regulation of financial services firms	2.91	3.05	3.22	3.38	3.29
Access to finance for consumers	2.66	2.73	3.03	3.20	3.10
Access to finance for businesses	2.73	2.77	3.08	3.29	3.19
General business support	2.90	2.99	3.28	3.41	3.35
Sector-specific support	2.90	2.94	3.27	3.44	3.36

1 = Very harmful; 3 = negligible net effect; 5 = very helpful

Source: ACCA (2010c).

Table 7: Relative importance of different types of interventions to government effectiveness ratings

	Size effects			Sector effects	
	Micro	Small	Medium	Financial	Real economy
Public procurement and public spending		–		+++	
Business law and regulations	+		++		
Corporate taxation	+	+	+		
Assistance to financial services firms					–
Access to finance for consumers					–
Business support	– – –				

Source: ACCA (2010c). Ratings of government effectiveness were correlated to ratings of individual interventions as well as business size and sector variables and their interactions, using ordinal regression analysis. A triple sign denotes that a relationship is significant at the p<0.01 level, a double sign at the p<0.05 level, and a single sign at the p<0.1 level.

Table 8: Size and internationalisation effects on the SMEs' experiences of the economic downturn

	Falling income	Poor access to finance	Increased costs	Staff cuts/ hiring freeze	FX fluctuations	Late payment	Supplier insolvencies	Customer insolvencies	Declining orders
Micro	-.359	.669 **	-.426	-1.167 ***	.005	.480	-.533	-.466	.154
Small	-.057	.146	.252	-.542 ***	.191	.230	-.881 ***	-.086	.175
Medium	.121	.194 *	-.002	-.300 ***	.166	.223 *	-.362 **	-.042	.272 **
Large (to 1,000)	.165	.086	.092	.043	.093	.242 **	-.036	.030	.137
One country only	.580	.828 *	.801 *	-.240	.238	.779 *	.384	.833 *	.815 *
2 to 5 countries	.209	.812 ***	-.205	-.289	.176	.617 **	.100	.718 ***	.343
6 to 10 countries	.196	.586 **	-.243	-.396	.259	.343	-.147	.578 **	.305
More than 10 countries	.013	.365	-.211	.020	.251	.225	.198	.547 **	.514 **

Note: Coefficients of binary logistic regression analysis, controlling for business sector, region, development country status, and timing of survey (*) p<0.1, (**) p<0.05, (***) p<0.01.

Source: ACCA, Global Economic Conditions Survey, Q2 2009 to Q2 2010.

Table 9: Size and internationalisation effects on investment and the incidence of business opportunities (summary)

	Falling capital investment	Increased capital investment	Falling staff investment	Increased staff investment	Cost-cutting opportunities only	Mix of cost-cutting and value-added opportunities	Value-added opportunities only
Micro	-.779 **	-.693	-1.135 ***	.449	-.943	-.467	.567 *
Small	-.605 ***	-.579 *	-.255 *	.032	-.744 **	-.397 **	.075
Medium	-.308 ***	-.371 *	-.106	-.223	-.265	-.454 ***	.181
Large (to 1,000)	-.002	-.610 ***	-.024	-.099	-.069	-.086	.017
One country only	-.206	1.166	-.290	-.560	-.841	1.167 **	-.477
2 to 5 countries	.025	1.979 *	-.101	.186	.146	.475	.621 **
6 to 10 countries	-.128	2.044 **	-.118	.463	-.040	.470	.441
More than 10 countries	.061	1.750 *	.177	.307	.055	.480	.488 *

Note: Coefficients of binary logistic regression analysis, controlling for business sector, region, development country status, and timing of survey (*) $p<0.1$, (**) $p<0.05$, (***) $p<0.01$

Source: ACCA, Global Economic Conditions Survey, Q2 2009 to Q2 2010

Table 10: Size and internationalisation effects on the incidence of business opportunities (detailed)

	Innovation	Niche markets	Change in customer behaviour	New markets	Lowering costs	Quality standards	Supply chain relationships	Increased orders
Micro	-.880	.023	-.713	.276	-.670 **	.288	.116	-.529
Small	-.239	-.017	-.518 **	-.118	-.580 ***	-.373 *	.151	-.209
Medium	-.144	-.218	-.307 *	-.266 **	-.477 ***	-.354 **	-.203	-.036
Large (to 1,000)	-.226	.265 **	-.309 *	.160	-.098	-.268 **	-.036	-.367 *
One country only	-.220	.949	-.717	.419	.826 *	.356	1.215 **	-.718
2 to 5 countries	.078	.824 **	.341	.613 *	.424	.795 *	.753 **	.064
6 to 10 countries	.184	.891 **	.044	.524	.354	.801 *	.974 ***	.000
More than 10 countries	.468	.517	.249	.560 *	.396	.810 **	.828 **	.094

Note: Coefficients of binary logistic regression analysis, controlling for business sector, region, development country status, and timing of survey (*) p<0.1, (**) p<0.05, (***) p<0.01

Source: ACCA, Global Economic Conditions Survey, Q2 2009 to Q2 2010

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