
**SMEs AND THE CRISIS:
IMPLICATIONS FOR EMPLOYERS'
ORGANISATIONS**

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The crisis has caught SMEs in a vicious circle of poor credit availability, impaired liquidity, rapidly changing export conditions and collapsing business confidence. The crisis has hit SMEs and entrepreneurs primarily in the following ways:

- ▶ *drastic drop in demand for goods and services (e.g. large firms are internalising production and reducing the amount of subcontracting to SMEs; drop in consumer demand, etc.);*
- ▶ *tightening in credit terms, which is severely affecting their cash flows;*
- ▶ *increased payment delays on receivables which - added to an increase in inventories - result in an endemic shortage of working capital and a decrease in liquidity;*
- ▶ *increase in reported defaults, insolvencies and bankruptcies;*

Perhaps what the crisis has most clearly done is highlight a number of continuing factors that affect the SME sector. Most notably, dependence on credit and access to finance for SMEs have been exposed as deep issues across most economies. As most SMEs would be characterised by weak financial structures (i.e. lower capitalisation) and have a low or no credit rating, when the crisis hit they were left very vulnerable. Never have SMEs more needed strong representative organisations to address their concerns and perspectives.

This publication considers the impact of the crisis on EOs in terms of how they represent SMEs, how their advocacy agenda may have changed, or may have to change in response to the crisis, and at the services they may be providing directly to their SME members or to their Small Business Association members (SBAs).

It reflects on some of the challenges posed by the crisis and the role of representative business organisations in meeting them.

1. REPRESENTATION

For some time Governments have been implementing a wide array of policies to reinvigorate their economies. They have invited representative organisations of the private sector onto national consultative bodies to assist in this process on either an ongoing or ad hoc basis. In some countries, this choice is straightforward. In others, the choice is not clear and this may enable the authorities to choose the organisation that will most likely give the response they are looking for. An important condition for the credibility of an employers' organisation is therefore to be representative, particularly of SMEs, in order to be recognised as the “*national voice of business*”. Considering the crisis impact on SMEs, this qualification has never been more important.

If an EO can genuinely speak for all sectors of the business community and all types of enterprises, large and small, governments and other key stakeholders are more likely to recognise it and take on board what it is saying.

EXAMPLE:

Before engaging in a national Employment Summit under the auspices of the Prime Minister, Business New Zealand undertook a short survey¹ of members, with a particular focus on the needs of SMEs, to arm it in its discussion with government and other stakeholders. BNZ was consequently able to clearly articulate the key challenges SMEs were facing.

WORKING WITH ALL STAKEHOLDERS TO IMPROVE THE SME ENVIRONMENT

As a result of its position as a national actor, EOs play a key role in shaping responses to the crisis. In these endeavours it works with a variety of other national actors in putting in place programmes that directly assist SMEs. Likewise it can use its position to influence the media to get governments to act on a particular policy objective.

¹ http://www.ioe-emp.org/fileadmin/user_upload/documents_pdf/globaljobscrisis/documentsfrommembers/Business_NZ_survey_for_national_Jobs_Summit_Feb_2009.pdf

EXAMPLE:

The Singapore National Employers Federation (SNEF) worked closely with the Department of Labour and its trade union counterpart in developing a set of “Tripartite Guidelines on Managing Excess Manpower”². The guidelines outline various measures companies can take to deal with employee management during the downturn such as: a skills upgrading programme; redeployment of employees to other areas of work within companies; and flexible wage systems.

RESPONSES TO THE CRISIS ILLUSTRATES THE ‘POLICY CONFLICTS’ EOS HAVE TO MANAGE

Representative national business organisations are entities that promote the collective interests of all business. Their role is to incorporate all the varying (and occasionally competing) views and concerns of the business community into a consolidated and cohesive position. The policies the EO advocates as the responses needed to exit the crisis need to be driven by the concerns that affect small and large businesses alike, across sectors. They need to avoid situations whereby individual companies, small groups of individual companies or specific sectors drive policy. Take the following examples:

EXAMPLE:

In order to increase demand and consumption, larger retailers may push the EO to advocate that extending retail trading hours will help facilitate this goal and, by extension, boost wider economic growth. Smaller retailers, being squeezed on costs and cash flow, may be against this provision as it would entail increased costs for them (e.g. through increases in wage premiums). Which side do you take?

EXAMPLE:

Some large manufacturing members, facing decreased demand which is being exacerbated by foreign competitors, may push the EO to advocate that government should introduce protectionist tariffs (or other non tariff barriers) in their sector. This, of course, could institute retaliatory tariffs which would impact negatively on small exporters. Which side do you take?

²http://www.mom.gov.sg/publish/etc/medialib/mom_library/Workplace_Standards/files2.Par.92816.File.tmp/Employers%20Guide%20to%20Saving%20Jobs_Final.pdf

EXAMPLE:

Government is anxious to help reduce costs for exporters who have seen demand collapse. Infrastructure and logistics are identified as two bottlenecks. A small number of trucking companies hold a monopoly and costs are high. Opening the sector up to more operators would both reduce significantly costs and improve services, particular for small operators. The trucking companies are members and would fiercely resist any changes to the status quo. Which side do you take?

These challenges underline the importance of two things. First, the basic philosophy of the organisation (i.e. free trade; market based principles, etc.). These principles are like an anchor for an EO, holding it firm as competing voices try to drag it in different directions. Second, ensuring that the governance and consultation structures of the organisation enable the concerns of all actors to be elaborated so that a credible policy is put forward – one that achieves the best outcome for the EO's members as a whole.

There are also differences in approaches, which have to be reconciled. SMEs will often focus on a singular issue that is impacting on them (access to finance) and demand, often radical, action (nationalise the banking sector!). Larger companies can generally afford to take a broader more nuanced view and have a wider range of policy priorities. These are large challenges requiring skilful leadership to inspire confidence that the EOs agenda is moving in a direction that satisfies all members – large and small.

On occasion, EOs will need to take a vocal and visible approach to an issue and proactively push (and be seen to push) an issue publicly (for example calling for targeted incentives and wage top-ups to small businesses to help them retain skilled employees). In this, the SME community can clearly see its 'national organisation' acting on its behalf. *However, this is usually the exception.* Most EO's advocacy efforts are behind the scenes where more subtle efforts are underway to affect policy change. The consequences of this is that the product delivered by business organisations is often significantly underestimated by newer small businesses.

This underlines the importance of effective communication strategies to SMEs and Small Business Association members about what the EO is achieving for SMEs, but in a way that does not alienate governments or other partners.

EXAMPLE:

The Australian Chamber of Commerce and Industry (ACCI) successfully lobbied the Australian Fair Pay Commission (AFPC) to maintain minimum wages at their current levels as the best means to protect jobs in the current climate.³ In its submission to the AFPC, ACCI was the only peak organisation arguing for no increase in the many thousands of regulated minimum wages until economic conditions and rising unemployment stabilise. To do otherwise, ACCI argued, would have imposed a higher wage and labour cost burden on hundreds of thousands SMEs, which would have weakened their ability to maintain viability.

ACCI's evidence to the AFPC demonstrated that the incomes of many minimum wage employees and families had been directly increased through a recent significant wage increase nine months previously, tax cuts and welfare changes, significant interest rate reductions and the proceeds from the Australian Government's stimulus packages.

The AFPC accepted ACCI's arguments that an increase in minimum wages would exacerbate unemployment and create an unacceptable level of labour market and economic risk, particularly for the SME sector.

The AFPC also recognised that recent government tax cuts and fiscal stimulus measures had maintained the social safety net, obviating the need for a minimum wage increase –arguments also put in the ACCI submissions.

SHOWING VALUE OF MEMBERSHIP TO SMEs/SBAs

SMEs and SBAs need to know what EOs stand for. Without knowing what an organisation stands for, SMEs and SBAs are unlikely to join it, listen to its views or give it respect and recognition.

EOs are organisations that promote economic freedom; entrepreneurship, equality; risk taking and enterprise development, sound and effective governance free of corruption; the rule of law and regulatory systems that enable enterprise creation and development; dialogue with other stakeholders. These are core values.

EOs need to explain these principles in terms of current national priorities through a vision document. What are its goals for the national economy; what conditions does business need to thrive; what are the current constraints on these principles? This document should seek in simple terms to garner resonance within policy circles. It should act as a short 'biography' of the business community and its current objectives.

³ ACCI's submissions to the Australian Fair Pay Commission are at www.acci.asn.au.

EXAMPLE OF STATEMENT OF PURPOSE

"The Australian Chamber of Commerce and Industry (ACCI) takes a lead role in representing the views of business to government. ACCI's objective is to ensure that legislation or proposed policy approaches at a national level address the needs of Australian businesses, whether they are one of the top 100 Australian companies or a small sole trader".

LESSONS LEARNT: REPRESENTATION

1. Ability to identify and advocate the concerns of the SMEs is vital for an influential national policy role.
2. EOs need to ensure that the organisation is not seen as being captured by a one sectional interest (e.g. banking sector; manufacturing) which would greatly harm its ability to project an objective view representing the totality of the business community.
3. It needs to clearly promote its 'impact' and 'influence' on the national policy agenda to SMEs, without alienating governments and other partners.
4. Effective SBA members that can provide clear policy objectives to the EO, will improve the credibility of overall business advocacy efforts.
5. Advocate for SMEs through general economic advocacy (i.e. many issues good for all business) and demonstrate this effectively.

2. ADVOCACY

The crisis presents an opportunity to push for reforms in the operating environment for business. Such has been the speed of the crisis; governments are responding and are open to regulatory and other policy changes. *EOs need to capitalise on this situation.*

But, to do that, they have to be able to *convince* policy makers of the need for a certain form of action, based on strong empirical evidence. If they are advocating, for example, a reform of payroll taxes as a crisis response measure, then they need to be able to point out in clear measurement terms, the current costs of these taxes and how in particular they are hurting the smaller firms. Additionally, they need to illustrate the 'total costs' to small enterprises. This can be achieved by emphasising in dollar amounts the time dimension to a regulation or cost (i.e. staff time needed for an administrative process, or to deal with officials). The time allowed for complying with legal obligations – *particularly for SMEs* – can be extremely onerous. Compliance with legislation, some of which can consist of different layers of highly detailed regulatory frameworks (e.g. local, state, and federal) can place a huge burden on these small enterprises without adding anything positive to the business environment.

As governments scrambled to respond to the crisis, a range of emergency measures were introduced in order to keep smaller business solvent. These range from cutting pay roll taxes and social insurance contributions to regulatory changes that eased costs (monetary and time).

This has helped keep many small firms in business, but it also illustrates just how heavy compliance with legislation can be for SMEs in many jurisdictions. It raises the question “if so many costs can be removed so easily, why were they there in the first place?” *It provides EOs with important signposts and direction for their ongoing advocacy efforts, during and after the crisis.*

EXAMPLE:

Business New Zealand (BNZ) is looking at the crisis as an opportunity for a national focus on productivity improvement. They have outlined a clear focused programme of activity that will underpin productivity and productivity growth on a sustainable basis, noting that most enterprises in New Zealand are SMEs. The BNZ 50 point action plan⁴ to improve national productivity:

- ▶ Captures a range of required policy and legislative changes;
- ▶ Includes strategic initiatives to ensure the approach to productivity is coordinated, consistent and focused;
- ▶ Details specific actions to be implemented as part of the productivity response.

The plan recommends that a **Ministerial Productivity Committee** be established to oversee the development of the policies, strategies and law changes contained in this plan. It should report quarterly to the public with regular consultation with the business community during the policy work.

SPEAKING FOR SMEs ACROSS ALL POLICY AREAS

In the first truly global financial crisis of the modern globalised era, the need for representative organisations of business to address all issues affecting business, large and small, has been reinforced.

SMEs are currently faced with a myriad of difficult issues: *accessing finance; keeping cash flowing; maintaining market share; keeping skilled workers.* They are looking for ways to help them remain solvent; to reduce compliance costs; reduce the cost of importing vital raw materials or exporting final products; making noise about unnecessary bureaucracy that makes their life hard. They want legislation reviewed that similarly hinders their growth.

SMEs need organisations that can provide them with information on these differing issues and can advocate their concerns to key policy makers. EOs also have the responsibility of identifying specific issues affecting the SME sector and then articulating them in policy terms and specific actions for government.

⁴ <http://www.businessnz.org.nz/file/1702/SETTING%20NZ%20APART.pdf>

To achieve these goals EOs must, therefore, be broadly based and engage the wider spread of government policy and regulation beyond industrial relations and the regulation of work. This advocacy agenda includes inter alia:

I. FINANCIAL SYSTEMS THAT CAN HELP THE SME SECTOR GROW

- ▶ Seek support mechanisms targeted to SMEs, such as advisory services and programmes to assist them in preparing bank loan proposals.
- ▶ Promote competition in the banking sector to improve access to finance at an affordable cost.
- ▶ Seek the establishment, where necessary and appropriate, of mechanisms to monitor SME lending by banks (e.g. through timely reporting or consultative mechanisms).
- ▶ Promote, where necessary and appropriate, the establishment of codes of conduct for SME lending by banks.
- ▶ Establish SME credit bureaus to compile the credit ratings of SMEs and provide financial institutions and other lenders with easy access to timely, accurate and reliable credit information on SMEs.
- ▶ Promote ways in which SMEs could use their positive credit history as ‘collateral’ to access loans at better rates and seek more competitive terms from different lending institutions.
- ▶ Ensure that there are sufficient policy and regulatory incentives to encourage financial institutions to lend to SMEs.
- ▶ Promote financial products adapted to the needs of SMEs and that financial instruments (e.g. venture capital) are accessible to develop innovative enterprises.
- ▶ Ensure that information about financial services is well disseminated to SMEs.
- ▶ Increase where necessary in some low income countries, measures aimed at increasing the productivity of small-scale informal and self-employment activities such as targeted micro-credit schemes. Micro-finance institutions (MFIs) have proven resilient in previous economic downturns.
- ▶ Appoint, where needed, “credit mediators” who, at regional and central levels, may intervene to ease difficulties and help enterprises obtain bank funding.
- ▶ Provide pre-funded agreements directly to SMEs, which can be taken to the banks to obtain guaranteed loans.

EXAMPLE:

The Confederation of Finnish Industries (EK) surveyed its SME members three times during four months (October 2008 – January 2009) to clarify and strengthen its advocacy efforts. Through surveys EK investigated the impacts of the financial crisis focusing on: demand of products and services; access to financing; and solvency among SMEs.

The results helped focus the Confederation's advocacy efforts by revealing that problems in obtaining finance had not increased dramatically during the previous few months, but that mostly SMEs have just postponed their investments. However, solvency problems among SMEs were increased (due to reduced demand rapidly leading to depleted working capital in the smallest firms). Addressing working capital/ short-term financing issues then became a policy focus for the organisation⁵.

WHAT THE GLOBAL JOBS PACT⁶ SAYS:

The GJP explicitly recognises the government's role in helping to ease the credit crunch: "recognising the contribution of small and medium-sized enterprises (SMEs) and micro-enterprises to job creation and promoting measures, including access to affordable credit, which would ensure a favourable environment for their development"

It additionally notes "the need for effective regulation of the financial system so as to strengthen its capacity to serve the needs of "the real economy" going forward."

II. PROCUREMENT ACCESS FOR SMEs

- ▶ Target government procurement to young and smaller firms.
- ▶ Package public procurement in small bids so that SMEs can participate in the tendering process.
- ▶ Ensure SMEs are eligible to tender for public contracts and that bureaucratic obstacles are minimised. The decentralisation of infrastructure expenditures can also promote the growth of SMEs.
- ▶ Provide training for both buyers and suppliers in the procurement chain. Training for contracting authorities should encourage them to understand and adapt to SME needs, while SMEs need to be supported to develop the knowledge and skills to allow them to participate successfully in modern procurement procedures.
- ▶ Improve the means by which SMEs are informed about the availability of SME-related government support measures, especially those that are responses to the current crisis.

⁵ <http://www.oecd.org/dataoecd/39/10/42500916.ppt>

⁶ The Global Jobs Pact (GJP) was developed by representatives of government, workers and employers during the 98th Session (June 2009) of the International Labour Conference. It outlines the key labour and social policy measures needed to recover from the crisis. The Pact provides employers with an authoritative statement from the ILO in support of key business fundamentals. It gives employers a strong set of policy recommendations with which to engage with governments at national level.

- ▶ Decrease in cases financial capacity criteria, in particular the ratio of historical turnover in relation to the value of the tender (procurement requirements can sometimes specify for companies to have their average financial turnover for the previous three years greater than three times the estimated project cost which would make participation in such tenders prohibitive for many SMEs).
- ▶ Improve both the timing of payments by public agencies to SME suppliers and accuracy (e.g. payment of VAT according to amount actually collected rather than the amount on the bill)
- ▶ Make procurement easier for SMEs – less administratively burdensome and more transparent. For example, government departments and agencies should be consolidating information using IT and not request SMEs to resubmit information, for example tax clearance certificates, which can already exist on Government IT systems.

III. TAX AND COMPLIANCE COSTS

- ▶ Advocate the reduction of those taxes that are “profit-insensitive”, i.e. taxes that are paid regardless of whether the SME is making a profit. This would increase the ability of SMEs to finance working capital internally.
- ▶ Temporarily postpone, reduce or reform certain taxes, in particular payroll taxes which are more of a burden to labour-intensive industries than to capital-intensive industries. These taxes bear no relationship to profitability or capacity to pay (social contributions and payroll taxes add an average of around 18% to the cost of employing minimum-wage workers).
- ▶ Temporarily reduce employer unemployment insurance contributions and other non-wage labour costs. Provide ‘top-ups’ or relief to employers on additional labour costs to employers.
- ▶ Explore changes to disposable earnings via changes in the tax and benefit system. Reduce the tax wedge (of lower wage earners in particular).
- ▶ Put in place tax deductions for SMEs to invest in equipment and facilities as this can have immediate multiplier effects and also help prepare for the upturn.
- ▶ Exempt SMEs from inheritance and gift taxes in cases where a business is passed on to a succeeding owner.
- ▶ Facilitate, where this is necessary, the reduction of working hours by compensating salaries through unemployment insurance benefits.
- ▶ Put in place tax rebates for loss-making small business.
- ▶ Reduction on capital gains taxes for SMEs.
- ▶ Time bound schemes to encourage new investment through tax breaks and reductions.

WHAT THE GLOBAL JOBS PACT SAYS:

The Pact calls for schemes to help firms get through the crisis, such as work-sharing and partial unemployment benefits.

IV. SKILLS & TRAINING

- ▶ Provide funding to assist SMEs in increasing worker training.
- ▶ Provide targeted incentives and wage top-ups to SMEs to help them retain skilled employees or those in skills training. This could be done through national or regional funds.
- ▶ Promote “free expertise” schemes whereby those who are made redundant and cannot easily find a new job, should be given the opportunity to keep their skills current by giving their expertise for free (or reduced wage) to small companies (whilst maintaining their Social Welfare job-seekers benefit).

WHAT THE GLOBAL JOBS PACT SAYS :

“the need to provide vocational and technical training and entrepreneurial skills development, especially for unemployed youth”

V. REGULATORY ENVIRONMENT

- ▶ Actively examine reductions in administrative, taxation, labour regulatory regimes (in particular, layoff regulations) for SMEs. Eliminate unnecessary red tape and bureaucracy.
- ▶ Reform anti-competitive regulations in product markets so as to encourage the growth of SME suppliers. Obstacles to businesses entering new markets should be reduced to stimulate the creation of new products and businesses and boost demand.
- ▶ Put in place, where they do not exist, regular regulatory reviews, with the full participation of the business community, with a particular focus on how they are impacting on SMEs.
- ▶ Seek greater flexibility in the regulation of hours to allow employers and SMEs to pursue creative mechanisms to retain staff.
- ▶ Reduce the cost of patent fees and trademarks.
- ▶ Encourage government to establish clear targets to reduce burdensome bureaucracy and administration on SMEs.

- ▶ Make regulatory bodies more accountable and ensure that regulators get it right the first time. Put in place a framework to safeguard against inappropriate regulation and provide more accountability for decisions.

EXAMPLE:

The Confederation of British Industry (CBI), earlier this year, outlined a number of key crisis responses policies. Notably they put an emphasis on employment regulation. They estimate that since 1998 new laws have added £70bn to business costs - equivalent to employing 215,090 people in full time jobs at average earnings throughout that period. The CBI strongly advocates that all future legislation should be tested by the question: how will this help create sustainable jobs?⁷

WHAT THE GLOBAL JOBS PACT SAYS:

“The Pact .. promotes the need to ensure a “regulatory environment which enables enterprise creation, sustainable enterprises and promotes employment generation across sectors”

VI. PROMOTE INNOVATIVE SMES

- ▶ Preserve market competition and avoid protectionist measures that undermine efficiency and innovation.
- ▶ Provide assistance to SMEs to maintain research and development (R&D) employment in preventing brain drain of skilled R&D personnel (e.g. direct subsidies; tax credits, promoting investment in R&D in association with public procurement).
- ▶ Give particular support to “Innovation-oriented” SMEs, as this type of activity is usually highly pro-cyclical. It is a key pillar in ensuring future growth.
- ▶ Incentivise stronger links between public research organisations and the private sector. This includes actively improving collaboration between private firms and third level institutions.
- ▶ Examine the role tax can play in promoting private sector expenditure and investment in innovation.

⁷ http://www.siemens.co.uk/pool/news_press/jobs_for_the_future.pdf

WHAT THE GLOBAL JOBS PACT SAYS:

“The Pact emphasizes the role the private sector will play in the recovery and underscores that private enterprise needs to be encouraged and given the policy confidence to resume activity.”

VII. INFRASTRUCTURE & LOGISTICS

- ▶ Invest in infrastructure projects (new or upgrade existing infrastructure) which can create opportunities for indigenous SMEs, while building a foundation for future productivity and growth and improve cross-border and cross-regional interconnectivity.
- ▶ Promote awareness of the multiplier effects of infrastructure developments in policy submissions. An improvement in road quantity and quality lowers travel time and reduces transport costs which in turn lowers others costs.
- ▶ Promote competition in the transport and logistics sectors that will improve service quality and lower costs.
- ▶ Insist on efficient and transparent customs procedures to facilitate importing and exporting SMEs.
- ▶ Outline and address the factors that give rise to infrastructural market failure and the role of the private sector in providing commercial solutions to them.
- ▶ Address barriers to efficient governance, scale and efficient decision making.
- ▶ Identify policy and regulatory reforms needed to ensure timely and coordinated delivery of investment.

WHAT THE GLOBAL JOBS PACT SAYS:

“increasing investment in infrastructure, research and development, public services and “green” production and services as important tools for creating jobs and stimulating sustained economic activity”

VIII. SUSTAINABLE APPROACH

- ▶ Ensure that governments take both short-term measures (such as tax changes) and longer-term measures (e.g. structural improvements and institutional changes in the SME financial environment) in order to restore sustainable growth.
- ▶ Caution governments against adopting immediate crisis management policies that compromise longer-term growth prospects (i.e. cutting innovation grants to SMEs) and urge that other policy goals, in particular skills, are not sacrificed in the short term.

- ▶ Help SMEs to maintain their investment level and more generally their capacity to respond in the near future through investment grants and credits, accelerated depreciation, and R&D financing.

IX. SUPPORT OPEN TRADE

- ▶ Resist protectionism, such as subsidies for troubled industries (high-income countries) and selective increases in border barriers (low-income countries). Resisting protectionism also means making sure that ongoing efforts to create new global markets for our goods and services are not derailed.
- ▶ Facilitate effective access to trade finance and credit insurance.
- ▶ Assist exporting SMEs with credit guarantees.
- ▶ Lower tax rates for exports and lower export duties

EXAMPLE:

Business Unity South Africa (BUSA) has heavily promoted the importance of trade to the South African economy⁸. In particular it has advocated the importance in the current climate of improving trade facilitation as a key for the growth of the region. BUSA have taken public positions on the need to improve the workings of the Southern African Free Trade Area (FTA).⁹ It has identified, through its members, difficulties in accessing up to date information on the tariffs applied by SADC countries. BUSA specifically proposed the establishment and maintenance of a database for the region that could facilitate information flows.

WHAT THE GLOBAL JOBS SAYS:

“clearly promotes efficient and well-regulated trade and markets, but it also sends a strong message on the need to avoid protectionist solutions”

⁸ <http://www.busa.org.za/docs/TalkingpointsMinTIMeeting15June.pdf>

⁹ <http://www.busa.org.za/docs/PS015.pdf>

LESSONS LEARNT: ADVOCACY

1. *The crisis presents a current opportunity to push for reforms to the wider business operating environment in the longer term*
2. *Advocacy efforts need to be well researched, be where required specific alternatives to current proposals and where possible presented in terms of the impact of a given regulation/cost on SMEs*
3. *EOs need to be able to advocate to government on all policy areas that impact on SMEs from labour legislation to taxation and trading environment*

3. SERVICES

As a rule national EOs are not *principally* ‘service providers’ they are *principally* ‘advocacy actors’. Most (but not all) EOs provide services of some kind to their member enterprises based on areas of comparative advantage.

A balance needs to be struck. The EO ‘brand’ is principally its role as a national actor, policy advocate and agent for change. The provision of services should not ‘dilute’ that brand, they should add to it.

SERVICES BASED ON COMPARATIVE ADVANTAGE

Generally, EOs are advised to avoid providing services that other commercial operators can offer and to stick to areas where they have a competitive advantage. Increasingly employer organisations have also come to be a repository of knowledge, advice and learning. For example currently many EOs are providing information services to SMEs on legislation pertinent to the crisis.

EXAMPLE:

The Irish Business and Employers Confederation (IBEC) has developed a guide that details layoffs procedures and short time working.¹⁰

The kinds of effective services provided by EOs are those where the EO has a competitive advantage, garnered from its wider policy role.

¹⁰ http://www.ioe-emp.org/fileadmin/user_upload/documents_pdf/globaljobscrisis/documentsfrommembers/IBEC_Guide_to_Layoffs_and_short_time_working.pdf

EXAMPLE:

A Government has introduced through fiscal expansionary measures, major infrastructure expenditure. It specifically is targeting SMEs. It was recognised that existing procurement procedures were both complex and time consuming, freezing out many SMEs. Through the advocacy efforts of the EO, new rules and procedures have been put in place. The EO has been closely involved in the construction of the new framework.

The EO therefore, has the information before others (i.e. a new procurement framework is coming); and second and crucially, it will have had access to inside information in terms of how the new procedures have been developed (and will be interpreted). The EO is therefore in a position of comparative strength to offer a unique and valued service to the small business community.

More indirectly EOs could facilitate the service provision of their SBA members. For example, the crisis has exposed the need to increase the managerial competencies of SMEs, especially in the field of finance. EOs can work with government departments and other agencies in shaping the framework for increased managerial skills development, including mentoring and business advice. Such training could then be implemented by SBAs alone or in collaboration with others.

The crisis also provides opportunities for local SMEs. The dramatic fall in trade provides openings for SMEs by allowing them to recapture local markets. This requires access to information, credit, business development services and explicit local level strategies to promote entrepreneurial activity to enter such markets competitively. EOs can assist in this directly or indirectly.

In providing services EOs have to keep the balance between income from subscriptions and income generated through services. Income generated through services is MOST susceptible to downturns and can leave an organisation exposed. Some EOs have currently seen a collapse in high earning income streams. For example EOs that provide products such as “certificates of origin” have seen big drops in exports which has led to reduced demand for this service.

EXAMPLE:

The Singapore National Employers Federation (SNEF) has developed a Guide to assist its SME members in scenario planning for a crisis. The Monthly Variable Component (MVC)¹¹ is a tool that can be deployed by employers to bring down wage costs in sudden and severe business downturns to survive and save jobs. The basic premise of the tool is the build up of a contingency wage fund that can be deployed if the cost base of the company is threatened enabling the enterprise to get through the immediate crisis and for employees to maintain their existing wage level.

MARKET INFORMATION - ECONOMIC ANALYSIS & TRENDS

SMEs lack the capacity to analyse the economic effects a policy change or an economic incident can generate on the overall global economy, not to mention the impact on their business.

This lack experience of dealing with global (or even national) affairs, makes them unable to adjust internal management to suit the need of the new or approaching situation (whereas larger firms can be both better prepared for a crisis, can adapt better, and take a longer term perspective).

Many SMEs are incorporated into the supply chains of large enterprises. In a supply chain, the large enterprise is usually the one responsible for export and dealing with external challenges and risks. However, as the market share diminished in the last year, large enterprises sought to cut costs and in many cases passed on these costs to SME suppliers – acerbating *their* situation. These SMEs were like passengers on a train that crashed into a log on the railway tracks. They weren't even looking.

Clearly SMEs and SBAs need analysis of current business cycles and broader economic trends. They need this in a digestible fashion that they can understand, relate to and take actions to adapt in their business if necessary. EOs through SBAs can provide this.

They also need someone looking down the track predicating what will happen next.

One emerging change from the crisis may be a shift away from global to more regional supply chains (changes also being driven by the climatic change debate and possible regulatory changes in this domain). This has major implications for the SME sector.

It is likely that a more consolidated financial system will emerge from the crisis; competition may be weaker leading to higher costs of credit and other financial services. There may well be an increase in the real cost of capital. Enterprises, particularly small ones will need to prepare for this reality - EOs and SBAs can help in these endeavours.

¹¹ <http://www.sgemployers.com/public/industry/mvcguide062006.pdf>

EO AS A PLATFORM FOR DIALOGUE

A key role of an EOs is that of ‘honest broker’ within the business community. They have the unique ability to convene competitors together in one forum to resolve a particular problem or to collaborate together in a neutral space in tackling an issue that affects all. Often ‘codes of practice’ are developed to this end.

The crisis has shown the importance of a closer relationship with the banking sector – making sure it is in line with the needs of the real economy. EOs can provide a space for the banking sector to liaise directly with SMEs to hear and consider their concerns and perspectives. Issues, such as the following, may emerge from such dialogue:

- ▶ Entering partnerships with business service providers to help them reduce the risks in SME lending.
- ▶ Adapting scoring methods for assessing SME credit-worthiness so as to incorporate appropriate discretion so that adequate room would be left for the specificities of the client, as happens with “relationship banking”. Inappropriate and indiscriminate use of credit scoring mechanisms can lead even deserving SMEs to be denied credit.
- ▶ Staffing local branches with personnel who have adequate skills in dealing with SME lending.
- ▶ Ensuring that automatic systems of credit evaluation evaluate the credit risk of SMEs on a company basis rather than on a sectoral basis.
- ▶ Encouraging the systematic gathering of more timely and SME specific data on the supply of and demand for financing so that they can determine if measures are working.
- ▶ Improving access to short term financing.
- ▶ Grouping of SMEs to enhance collateral share risk.
- ▶ Facilitating regular banking- small business forums.

The following is an example of a compromise approach reached through dialogue with all stakeholders:

EXAMPLE:

The Irish Small Firms Association worked with a variety of other stakeholders in pushing for and succeeding in the establishment of a new statutory **Code of Conduct for Business Lending to SMEs**¹² under the auspices of the national financial regulator. The code, which is legally binding on all licensed banks:

- ✓ *Contains the option for an annual review meeting for all SMEs with their bank, which will include a discussion on all credit facilities and the levels of security (which allows small businesses to ask for their security back if it is no longer required) ;*
- ✓ *Ensures that applications by SMEs for financing are dealt with promptly, with clear explanations being given for decisions made and a commitment not to seek unnecessary security;*
- ✓ *Clear procedure for the handling of complaints (e.g. perceived unfair refusal of lending);*
- ✓ *Provides for the commitment by recapitalised banks to fund and cooperate with an independent review of credit availability;*
- ✓ *Commits recapitalised banks to increase their lending capacities to SMEs by 10%;*
- ✓ *Establishes a "clearing group" to identify and solve issues around the flow of credit ;*

LESSONS LEARNT: SERVICES

1. *If EOs provide services, they should be in areas where they have comparative advantage over other commercial providers;*
2. *New policy measures and regulatory changes can provide opportunities for EOs services*
3. *SMEs need help in identifying external impacts on their businesses along with analysis of possible future changes in business cycles and trends*
4. *EOs can provide a unique space for cross sectoral dialogue*

¹² <http://www.financialregulator.ie/processes/consumer-protection-code/documents/code%20of%20conduct%20for%20business%20lending%20to%20small%20and%20medium%20enterprises.pdf>

4. CONCLUDING REMARKS

The crisis has illustrated both the importance of the SME sector as the driver of the real economy and the fragility of this sector in dealing with external shocks. It has also demonstrated the need for EOs as the main national conduit to governments for the business community, in getting the concerns of SMEs onto national agendas and responding with the right policy. This requires organisations relevant to SMEs.

Relevance means providing services that meet current needs and cater for circumstances as they exist and unfold. Relevance requires adaptability to changing business, economic, industrial and social environments. The pace of change in developed and developing economies, driven in part by globalisation and technology, is far reaching. The environment in which business organisations operate is fast moving, more complex and less certain.

The global economy affects business conditions as never before – particularly as we have seen for SMEs. At any given moment decisions by governments can be affected by events on the other side of the world as much as by events around the corner. The financial crisis that gripped the global economy in September 2008 is a dramatic illustration of how business environments and labour markets can change in a short space of time, requiring resource and service re-allocation by employer organisations.

These challenges carry both risk and opportunity for employer organisations. Regulation and compliance are increasing, as is competition. Mistakes in business management carry heavier risks. Running a business without access to good advice from employer organisations is high risk. Even knowing what is going on in national affairs or knowing where to find out is beyond many small businesses.

In these environments employer organisations can communicate a potent message to SMEs about the benefits of membership, provided their services are relevant and of high quality. Employer organisations that are not able to meet these expectations will ultimately struggle and, as in any market, their customers (i.e. enterprises) will look to other providers.

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