

ESSAY

SECOND TRACK CASE STUDY: OECD WORKING PARTY ON SMES AND ENTREPRENEURSHIP

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The importance of SMEs to national economies and international trade was not reflected in the policy deliberations of major international economic institutions such as the OECD and World Bank until the early 1990s, when an early example of the Second Track process changed the status quo. Olga Bodrova recounts the origins of OECD's leading body on SME policies with insight from those who were there.

Major national firms and international corporations dominate the business headlines, yet it is small and medium-sized enterprises in OECD countries and across the globe, which account for over 99% of the total number of firms and most private sector jobs. In the United States, in December 2021, the Office of Advocacy of the US Small Business Administration (US SBA) showed that SMEs were responsible for 43.5% of gross domestic product (GDP)¹, while the SME sector remains the backbone of European Union economies and the engine of most new employment.²

While start-ups are seen as the fount of economic innovation, the entrepreneurialism of established SMEs puts them in the driving seat of transformational and innovative change. However, their smaller size, lack of collective organisations and low political profile also leave them vulnerable to mega-trends, less able to access finance – despite their more minor demands – and more overwhelmed by regulation. Their lack of resources also exposes them to 'black swan' events, such as the global economic lockdowns over 2020 – 2021 to contain the COVID-19 pandemic.

1. US Small Business Administration, Office of Advocacy, 2021

2. European Commission, n.d.

These challenges often mean the needs of SMEs are neglected in the political policy debate, and their interests are undermined by lobbyists from larger businesses and PR departments. Millions of SMEs and local entrepreneurs have no potential to be 'unicorns' but are nevertheless the mainstays of economic stability and social wellbeing.

The importance of SMEs to national and global economies was not reflected in the policy deliberations of major international economic institutions such as the OECD and World Bank for many years, and it took an early example of the 'Second Track' process for their importance to be more generally recognised and incorporated into economic policy formation.

WHAT IS SECOND TRACK?³

'Second track' backchannel diplomacy pre-dates formal diplomacy and the nation-state itself. It encompasses non-governmental, informal and unofficial contacts and activities between private citizens, groups of individuals or other 'non-state actors',⁴ although, until the 1980s, the concept remained as informal as its practice. It is not a substitute for traditional diplomacy but can help official actors manage and even resolve conflicts by exploring possible solutions beyond formal negotiation.

State Department official Joseph V. Montville coined the phrase in 1981⁵ at the height of the Cold War. He argued that 'track two' could 'reduce or resolve conflict, within a country or between countries, by lowering the anger or tension or fear that exists, through improved communication and a better understanding of each other's point of view'. The idea created a class of 'conflict resolution professionals' working through non-governmental organisations and universities to facilitate unofficial, unstructured interaction between stakeholders.

At its best, the process encourages an open-minded, altruistic and optimistic approach, nudging participants towards a best-case analysis unfettered by entrenched orthodoxies. It takes a positive view of people's underlying humanity, once job descriptions and national identities are stripped away, although it uses those trappings of power to put its plans into use. Common interests in science and culture can also cross political boundaries, softening the edges of diplomacy's inherent threat of force.

THE WORKING PARTY ON SMEs AND ENTREPRENEURSHIP

The Working Party on SMEs (WPSME) was created in March 1993 by the Organisation for Economic Co-operation and Development (OECD) to provide data and analysis to Member countries (24 at that time) for designing and implementing policies for SMEs that foster employment, competitiveness and growth. It was, at that time, a subgroup of the Industry Committee (IC). At the turn of the new decade, in 2002, to highlight the role of new enterprises in innovation and economic progress and the close integration of entrepreneurship in SME issues and policies, the **Working Party became Working Party on SMEs and Entrepreneurship (WPSMEE)**.

It was still a subgroup of the Committee on Industry, Innovation and Entrepreneurship (CIIE), but on **20 April 2021**, the OECD Council approved the upgrading of the Working Party to the status of a Level I Committee: it became the **Committee on SMEs and Entrepreneurship (CSMEE)**.⁶

The story of WPSME's establishment in 1993 offers a case study of the power of Second Track stakeholder engagement to fast-track solutions to critical issues.

3. Fritz, 2019, 2022

4. Davidson and Montville, 1981

5. Ibid.

6. OECD, 2021

We should remember that it was not until the second half of the 1980s that governments in most OECD countries took an interest in small and medium-sized enterprises as an essential source of jobs, innovation and growth. The OECD at the time had no specific interest in the issues facing small businesses. SMEs were rarely acknowledged nor represented at the OECD. The Organisation was focused on macro-economic policy and major corporations, rather than microeconomics which was not fashionable at the time. However, in 1988, France asked the OECD to undertake an international comparative analysis of the programmes and policies implemented by member countries concerning SMEs. Marie-Florence Estimé, then an Administrator in the Industry Division of the OECD's Directorate for Science, Industry and Technology (DSTI), was assigned to this project. While developing various works on SMEs, she started to alert OECD executives and government representatives about the lack of an official body dedicated to SMEs inside the Organisation.

During a visit to Australia in September 1992, while attending a Sydney conference on SMEs, Marie-Florence was introduced by Professor Chris Hall (University of Technology, Sydney) to an Australian businessman and philanthropist, Peter Fritz, a long-standing advocate for the interests of small businesses.

The pair discussed how the OECD could take a more active role in promoting the importance of SMEs and tailoring economic conditions to their needs, given the importance of small businesses in job creation, economic innovation and social cohesion. They acknowledged bureaucratic difficulties facing the OECD Secretariat, the permanent body of professionals working at the OECD, to convince member countries' government representatives of this need and create and launch an official body.

A month later, in Paris, at a meeting with the OECD DSTI Director, Peter convinced this decision-maker that creating an official body at the OECD focused on SMEs was essential. Support was also secured from Australia's Ambassador to France and Permanent Representative to the OECD in Paris, who agreed the idea had merit.

A month and a half later, in early December 1992, at the Australian Embassy, a formal meeting was arranged with all the OECD member countries around the table to discuss the creation of an official body. Within a day, the idea was not only decided but a first draft of the mandate of the future Working Party was prepared. Exactly three months later, in March 1993, after approval of the final mandate by the OECD Council, the Organisation's governing body, the Working Party, was officially created and held its first session.

The process took less than six months by working through 'second track' channels where willing individuals cooperate to find and implement solutions to common problems, rather than the traditional organisational structures' 'first track' approach. The push to promote SMEs took vision, but just as importantly, a practical outlook, the use of personal networks and the power of persuasion to make things happen and to progress issues.

The Working Party broadened the scope of the OECD and extended its reach significantly. The new body sought contributions from small businesspeople and entrepreneurs, rather than merely speaking on their behalf, and channelled their feedback to the policymakers to establish a meaningful dialogue.

WPSME formed the centre of OECD work on the role played by small businesses in a globalising economy characterised by increasingly rapid market and technological change. The recession experience in the early 1980s and 1990s had also demonstrated SMEs' leading role in job creation by countering the negative effects of job losses in larger firms.

The group initially undertook a comprehensive analysis of SME policies and issues at the national and international levels. This led to the creation of a comprehensive analytical framework identifying best practice policies in member countries which informed a series of reports, including the OECD Manual for the Evaluation of SME and Entrepreneurship Policies.

The Working Party also focused on the potential and promotion of women's entrepreneurship. It was a pioneer in organising the first OECD major international conference on this topic in 1997, which issued a report and a set of policy recommendations much appreciated by member countries. A second international conference was organised in 2000, assessing the progress and emerging issues at the turn of the century.

THE OECD BOLOGNA PROCESS ON SMEs⁷

Research published by the WPSME led, at the invitation of the Italian Government, to the first OECD Ministerial Conference on SMEs in Bologna, Italy, on 13-15 June 2000.⁸ Entitled 'Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies', the event explored innovation and e-commerce, among other issues. Forty-nine member and non-member countries participated, and SME and Industry ministerial representatives adopted the 'Bologna Charter on SME Policies'.⁹

The Bologna Ministerial Conference was also held alongside a Business Symposium which brought together many representatives of the global SME sector.

The Bologna Ministerial Conference allowed the OECD to open a high-level dialogue among policymakers, the business community, and national and international organisations and institutions on ways for SMEs to reap the benefits of globalisation and technological progress while building on their local strengths. The event also strengthened partnerships between SMEs and SME policy makers in OECD member countries, emerging economies and developing countries.

The Bologna conference was the start of what came to be known as 'the OECD Bologna Process on SME and Entrepreneurship Policies'. This OECD Bologna Process maintained its momentum with the second Ministerial Conference, held in Istanbul in June 2004, at the invitation of the Turkish Government, which saw 72 countries participate and sign the 'Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs'.¹⁰ The conference also led to the development of an evaluation framework of SME programmes and policies, the improvement of SME data and statistics with an emphasis on financing SMEs, female entrepreneurship, and additional work on SME globalisation.

Underlining the growing importance of this policy area, in July 2004 the OECD Council created the *Centre for Entrepreneurship, SMEs, and Local Development (CFE)*¹¹ to promote the OECD's work on SMEs and entrepreneurship¹² and link the secretariats serving the Working Party, the Local Economic and Employment Development Committee and the Tourism Committee.

7. OECD (n.d)

8. OECD, 2000

9. They also agreed, by the same token, at an Italian Government initiative, the International Network for SMEs (INSME), which became in 2004 an Association that acts as a facilitator for the creation of public-private partnership, a gateway to innovation good practices for the support of SMEs and entrepreneurship.

10. OECD, 2022a

11. In 2017, The Centre for Entrepreneurship, SMEs, and Local Development (CFE) became the Centre for Entrepreneurship, SMEs, Regions and Cities (CFE)

12. <https://www.oecd.org/industry/smes/>

A significant amount of research work was undertaken following the recommendations issued on the various topics by the Istanbul Ministerial Conference, and reports were presented at high-level conferences tackling questions such as *SME and Entrepreneurship Financing* (Brasilia, March 2006), *SME Access to International Markets* (Athens, November 2006), and the Role of SMEs in Global Value Chains (Tokyo, June 2007). The *Bologna +10 High-level Meeting on SMEs and Entrepreneurship* in 2010 in Paris took place on the occasion of the 10th anniversary of the Bologna Ministerial to design a roadmap to help governments recover from the crisis and to secure sustainable growth over the longer term.

Overall, these reports and events have raised the profile of SME and entrepreneurship policies and helped governments set out policies to support and encourage the sector.

Ongoing initiatives include the *OECD Scoreboard on Financing SMEs and Entrepreneurs*,¹³ which collates data from 48 countries on SME lending, financing conditions and policy initiatives and is now in its tenth edition. The OECD SME and Entrepreneurship Outlook report presents the latest trends in the performance of SMEs and entrepreneurs and relevant business conditions and policy frameworks in an increasingly digitalised and globalised world.

The Working Party initiated an OECD SME and Entrepreneurship Strategy in 2019 to help develop principles for effective, efficient and coherent SME and entrepreneurship policies.

Finally, during the COVID-19 pandemic, WPSMEE prepared periodically updated notes on the economic outlook for SMEs and analysis of emergency support measures and SME policy approaches in OECD Member countries

LEVEL I COMMITTEE ON SMEs AND ENTREPRENEURSHIP

On 27 April 2021, the OECD Council elevated the Working Party to the status of a full Committee reporting directly to Ambassadors, signalling the critical role SMEs can play in driving a sustainable, inclusive, green, and resilient post-COVID recovery.

The initiative was launched by New Zealand and attracted strong backing among the 38 Member countries, including dozens of letters of support from Government Ministers and international and national business agencies. This promotion in status was another significant milestone and a triumph for the Second Track process, as it was the result of many years of relentless advocacy from the OECD CFE Secretariat, in particular, Lucia Cusmano, in charge at the CFE of the WPSMEE, and Lamia Kamal-Chaoui, Director of the OECD CFE, and from several individual country member representatives, as well as Sergio Arzeni, former Director of the OECD CFE and current president of INSME.

The new Committee will strengthen the voice of small business and entrepreneurship in OECD policy making and help level the field with big business. It shows that the OECD continues to acknowledge their potential, the challenges they face, and the need to incorporate the needs of SMEs throughout international and national tax, environmental, education, innovation, investment, trade, employment, and social and industrial policies.

The OECD's then Secretary-General, Angel Gurría, said the new Committee would strengthen the Organisation's ability to support member countries in their inclusive economic recovery planning. 'SMEs and entrepreneurs hold the key to sustainable and inclusive growth, and as such, they need to be front and centre in the economic recovery,' he said. 'The new Committee on SMEs and Entrepreneurship provides the right institutional structure to respond to members' needs and enhance the impact of this vital OECD work.'

13. OECD, 2022b

THE IMPORTANCE OF THE SECOND TRACK

International and national policy-making for the SME sector entails evaluating data, framing regulations and setting up programmes to improve SME performance. However, first-track processes in government departments are dominated by politicians and bureaucrats, few of whom will have any experience running a small business. If those policy deliberations do not incorporate and listen to the SMEs' voices, they risk being ineffective and even counterproductive. The Second Track offers a mechanism for SME owners and managers to offer their experience and ideas first-hand to decision-makers and incorporate the advice of academics, business experts and additional stakeholders.

Although in its infancy at the time, the Second Track process not only helped create the OECD Working Party on SMEs and secure its recent elevation to full Committee status¹⁴ but offered a methodology through which its work could be improved by incorporating a more comprehensive range of voices and demanding implementation on the ground.

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14. OECD, 2021

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