

OECD Going Digital Summit - Issues Note

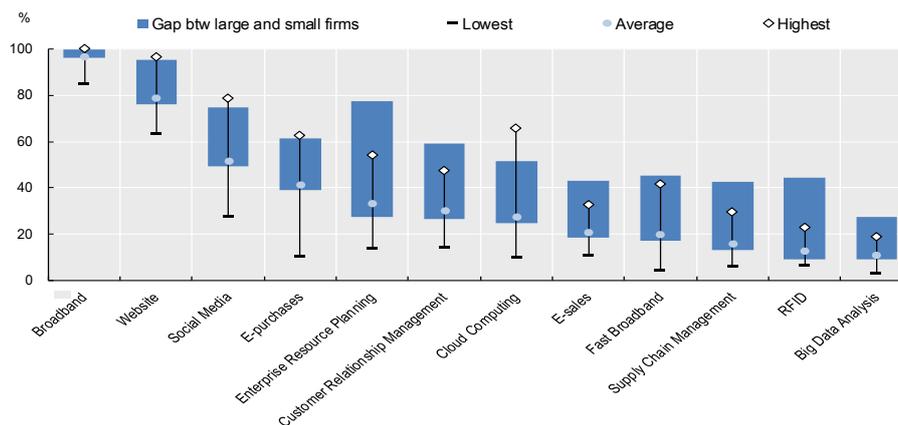
Session 6B: Making Digital Transformation work for All Businesses

The diffusion of digital technologies is still underway

OECD data shows that the diffusion of digital technologies across OECD countries is far from complete, even amongst the most advanced economies. While most firms now have access to high-speed broadband networks, more advanced, productivity-enhancing digital tools and applications, such as enterprise resource planning systems or big data analytics, have diffused to far fewer firms in OECD countries, with small and medium-sized firms typically lagging larger firms. For example, 28% of large firms perform big data analysis, but only 16% of medium-sized and 9% of small-sized firms do so (Figure 1).

Figure 1. The potential for diffusion of digital tools in SMEs

Diffusion of selected digital tools among firms, as a percentage of all firms, 2017.



Source: OECD, ICT Access and Usage by Businesses (database), <http://oe.cd/bus>.

SMEs have new opportunities with digital transformation

SMEs face a number of opportunities and challenges in adopting and benefitting from new digital technologies, and so improving their productivity. Digital transformation promotes the emergence of "born global" small firms, which serve customers locally and internationally. These firms' businesses are often underpinned by Internet platforms that facilitate trades that otherwise would not happen and thus increase the supply of products and services for consumers. SMEs can also use digital technologies such as Big Data and data analytics to better understand the processes within the firm, the needs of their clients and partners, and the overall business environment. They can also take advantage of digital technologies to lower search costs and improve their access to talent and skills development strategies, such as through better job recruitment sites, on-line courses and knowledge exchange platforms, and in the outsourcing of key business functions, all of which can help

improve performance. New technologies can also facilitate access to a range of financing instruments, from traditional ones to innovative, digitally-based financing tools.

SME also face barriers to digital transformation

While digital transformation provides new opportunities for SMEs, there are also large barriers for many SMEs to adopt new digital technologies, reflecting challenges such as relative difficulty accessing finance to make the necessary investments, or a lack of key capabilities, such as the requisite human resources and management expertise. Furthermore, SMEs face specific challenges in managing digital security and privacy risks, mainly due to lack of awareness, resources and expertise to assess and manage risk effectively and to comply with data-protection regulations. Finally, the slow adoption of digital technology might also be a reflection of the lower incentives for some SMEs who might not be able to reap the same pay-offs from the digitalisation of their production processes as larger businesses.

Firms require room for experimentation with technologies and business models

The opportunities and challenges faced by different firms implies that some are successful in seizing the benefits of digital transformation, whereas others are not. Digital transformation of firms often involves a process of search and experimentation with new technologies and business models, where some firms succeed and grow and others fail and exit. Countries with a business environment that enables this process, including by easing access to strategic resources (finance, skills, knowledge assets), may be better able to seize the benefits from digital transformation than countries where such changes are more difficult and slow. This is also because a firm's incentives to experiment with – often uncertain and risky – digital technologies will be shaped by its ability to rapidly scale-up operations in the event of success, and rapidly scale-down operations and potentially exit the market at low cost in the event of failure.

Q1: How can policy makers best enable firms of all sizes to embrace the digital transformation? What policies are proving to be effective?

Q2: What policies can help SMEs overcome barriers to digital transformation? How can the opportunities for SMEs with digital transformation be enhanced?

Q3: What policies have proven effective in enabling the entry and growth of digital start-ups? What role do barriers to exit play for experimentation with new business models?

Q4: How can the OECD help in addressing these challenges?