

A microscope on small businesses: The productivity opportunity by country

Data snapshot for Israel



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A microscope on small businesses: Data snapshot for Israel

The recent McKinsey Global Institute report *A microscope on small businesses: Spotting opportunities to boost productivity* estimated that micro-, small, and medium-size enterprises (MSMEs) account for two-thirds of business employment in advanced economies—and almost four-fifths in emerging economies—as well as half of all value added.¹

In this research, MGI aggregated a richly granular data set of MSMEs and large companies across 12 broad sectors, 68 level-two subsectors, and more than 200 level-three subsectors for 16 countries that account for more than half of global GDP. In this group (listed by per capita GDP in 2021 in purchasing power parity terms) are ten advanced economies: the United States, Germany, Australia, the United Kingdom, Italy, Israel, Japan, Spain, Poland, and Portugal; and six emerging economies: Mexico, Brazil, Indonesia, India, Nigeria, and Kenya.²

In these countries, MSMEs on average have only half the productivity of large companies, and less than that in emerging economies. Raising MSMEs to top-quartile levels relative to large companies is equivalent to 5 percent of GDP in advanced economies and 10 percent in emerging economies.

The visual presentation that follows summarizes the findings for Israel.

MSME performance varies significantly among countries—and sectors and subsectors within countries. Their economic contribution in terms of jobs and value added ranges widely, as does their contribution to economic dynamism. So does their productivity relative to large companies, and the potential to add value from narrowing those gaps.

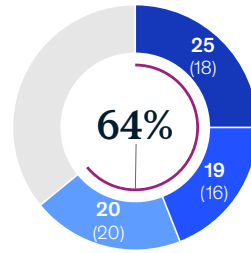
Only a fine-grained view down to the subsector level reveals a full picture of MSME productivity and informs how best to raise it and capture value. Based on that deep intelligence, businesses and policy makers can effectively prioritize and tailor approaches, and those approaches, too, can differ from country to country.

¹ *A microscope on small businesses: Spotting opportunities to boost productivity*, McKinsey Global Institute, May 2024.

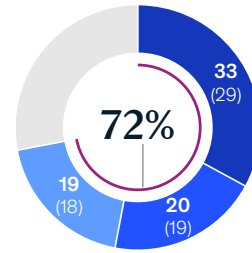
² Countries classified as "advanced emerging," "secondary emerging," or "frontier" by FTSE Russell have been categorized as emerging economies for this research. For more detail, see *FTSE equity country classification September 2023 annual announcement*, FTSE Russell, September 2023.

MSMEs in Israel contribute 64% to value added and 72% to employment compared with 54% and 66%, respectively, in advanced economies, and play a significant role in trade and construction. They are more dynamic and more productive relative to large companies compared with advanced economies, 69% vs 60%. Narrowing the productivity gap with large companies is equivalent to 1.8% of GDP in Israel compared with 4.7% among a sample of advanced economies.¹

MSME share of business value added, %

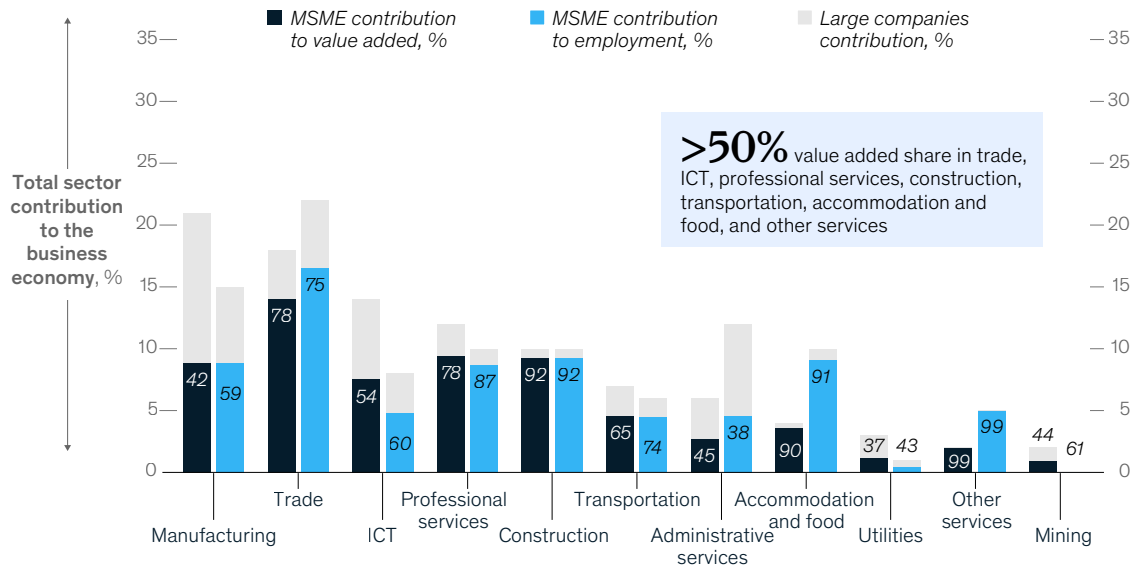


MSME share of business employment, %

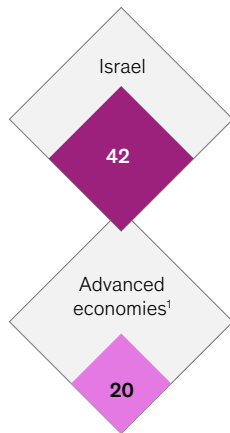


xx (xx): share in Israel (average share in advanced economies)¹

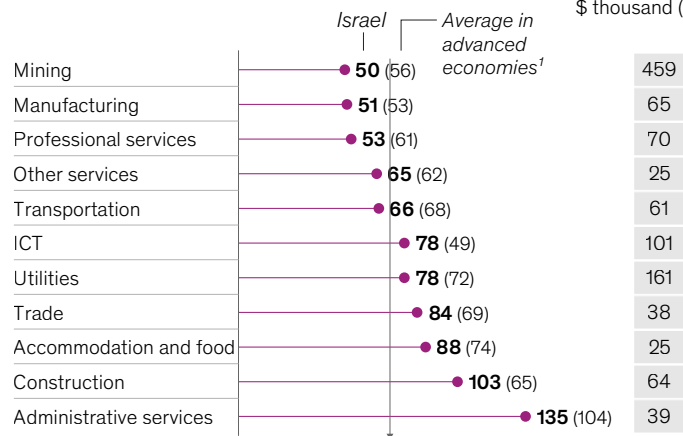
MSME share of business value added and employment by sector, %



MSME role in business dynamism, share of public companies with >\$0.5B market capitalization in 2022 that were MSMEs at some point since 2000, %



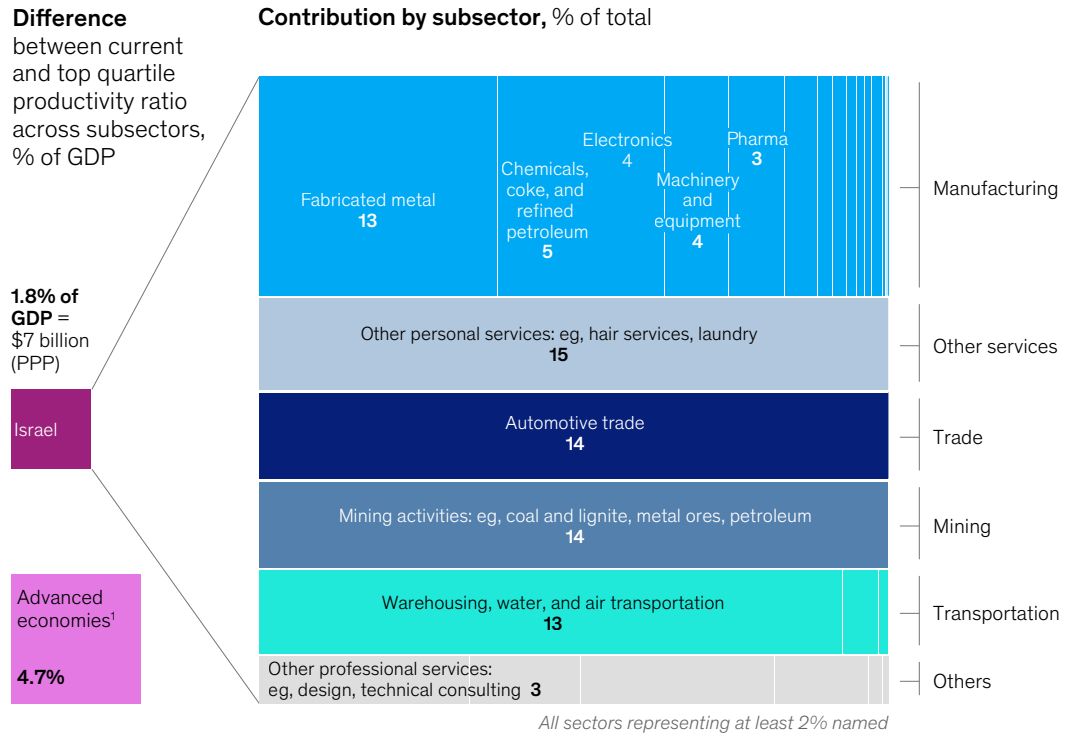
MSME productivity ratio (MSME productivity relative to large company productivity by sector, %)



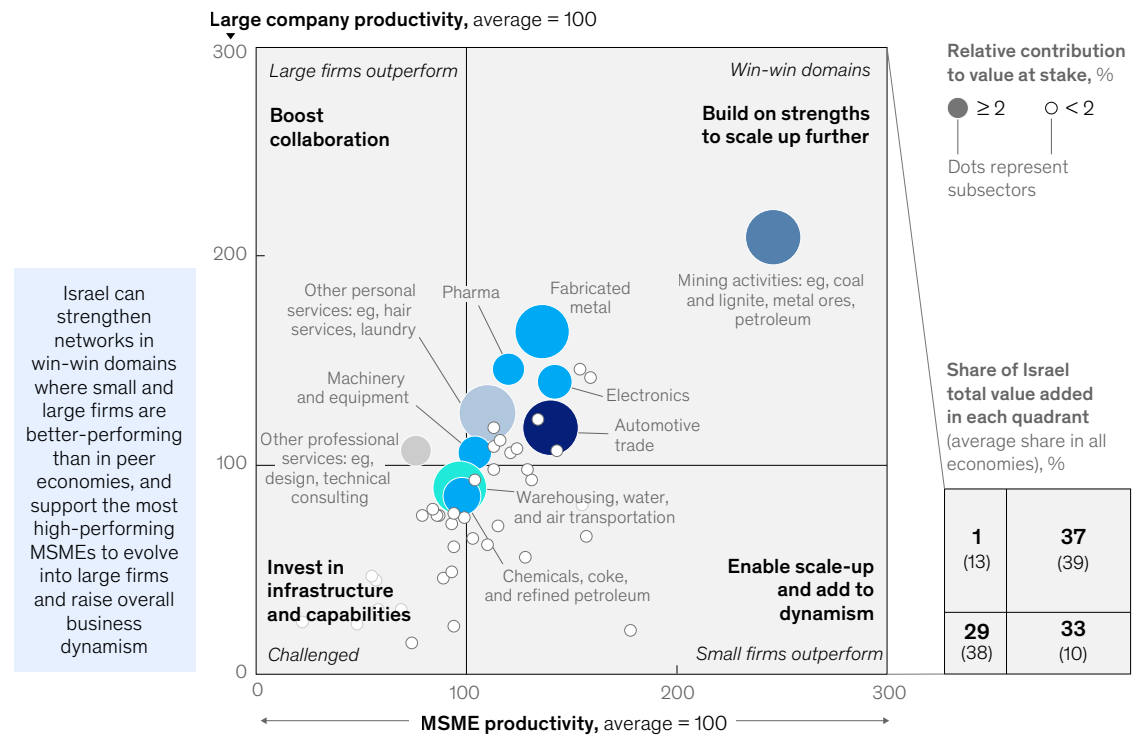
MSME productivity
Value added per worker, \$ thousand (PPP)

Mining	459
Manufacturing	65
Professional services	70
Other services	25
Transportation	61
ICT	101
Utilities	161
Trade	38
Accommodation and food	25
Construction	64
Administrative services	39

MSMEs are **69%** as productive as large companies on average in Israel vs 60% in advanced economies¹



Large company vs MSME productivity, indexed (100 = simple average productivity across countries for each subsector²)



¹Advanced economies included are Australia, Germany, Israel, Italy, Japan, Poland, Portugal, Spain, UK, and US.

²Countries included in the average are the 10 advanced economies and 6 emerging economies (Brazil, India, Indonesia, Kenya, Mexico, and Nigeria).

Note: Year for which data are represented is 2018. Microenterprises have <10 employees, small enterprises have 10–49 employees, medium enterprises have 50–249 employees, and large companies have ≥ 250 employees. Analysis excludes the following sectors due to inconsistent data: agriculture, financial and insurance activities, real estate, public administration and defense, education, human health and social work, arts and entertainment, activities of households, and activities of extraterritorial organizations.

Source: Central Bureau of Statistics, Business Demography: A collection of statistical data from the business register; ILOSTAT; S&P Global Market Intelligence; McKinsey Global Institute analysis

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