



Industry
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SMALL

VOL. 9, NO. 3, November 2007

Business

Q U A R T E R L Y

www.strategis.gc.ca/SMEquarterly

PERFORMANCE *Trends*

■ **Business insolvencies, which include bankruptcies¹ and proposals,² totalled 1908 by the end of the second quarter of 2007, representing a 9.1-percent decrease from the first quarter of 2007, the fourteenth consecutive quarter-over-quarter decrease.**

■ **The number of payroll employees increased in the first quarter of 2007 by 285 728 compared with the first quarter of 2006. Large businesses contributed 52.9 percent of the annual growth in employment, compared with a contribution of 19.4 percent from medium-sized businesses and 27.7 percent from small businesses.³**

■ **The mining and oil and gas extraction sector experienced a 9.9-percent increase in payroll employment, the largest among all sectors.**

■ **The share of self-employed workers with a post-secondary and university education reached 59.3 percent in 2006, an increase from 53.2 percent in 2000.**

¹ Bankruptcy refers to the liquidation of the debtor's business assets and the end of the commercial entity's operations.

² Proposals involve the settling of debts between the debtor and its creditors while still allowing the business to continue operating.

³ Small businesses are defined as having fewer than 100 employees, medium-sized businesses having 100 to 499 employees and large businesses having 500 or more employees.

SME PERSPECTIVE:

Canadian Rural-Based Entrepreneurs

Rural-based entrepreneurs play a significant role in the development and support of local communities. A recent analysis uses the 2004 *Survey on Financing of Small and Medium Enterprises* from Statistics Canada to illustrate the distribution of rural-based entrepreneurs in Canada, and contrast issues facing rural and urban entrepreneurs.

In 2004, rural-based small and medium-sized enterprises (SMEs) represented 28 percent of the estimated 1.4 million SMEs in Canada, somewhat higher than rural Canada's proportion of the overall population (20 percent in rural areas versus 80 percent in urban areas). This suggests that Canadians residing in rural areas were more likely to be entrepreneurs than those living in urban centres. This is corroborated by the fact that 6 percent of rural-based Canadians owned an SME compared with 4 percent of urban residents. The Prairie provinces had the highest share of rural-based SMEs (36 percent), followed by Quebec (24 percent), Ontario (21 percent), the Atlantic provinces (11 percent) and British Columbia (8 percent).

The characteristics of SMEs in rural Canada reflect the industrial composition of rural regions. In 2004, nearly one third of rural-based SMEs operated in agricultural and primary industries, such as mining, fisheries and forestry. Consequently, the Prairie and Atlantic provinces, where these industries are mainly located, have the highest ratios of rural-based SMEs (51 percent and 46 percent respectively). Generally, SMEs located in rural areas are more established than their urban counterparts: 77 percent of rural-based SMEs

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started selling products and services prior to 1999 compared with 67 percent of urban-based SMEs. In addition, rural-based SMEs have fewer employees (86 percent of rural-based firms are micro-businesses, employing fewer than five employees, compared with 83 percent of urban-based firms) and are more likely to be self-employed operations.

Rural-based entrepreneurs, and particularly those in remote areas, are likely to face impediments such as increased distance to markets and business services, and higher transportation costs. A comparison of the obstacles to business growth identified by both urban- and rural-based SMEs indicates that rural-based SMEs were more concerned than urban-based SMEs about the following obstacles to their business growth: insurance rates, government regulations, low profitability, levels of taxation and finding qualified labour.

Financial performance of rural-based SMEs is weaker than businesses based in urban centres. On average, SMEs owned by rural-based entrepreneurs:

- have lower profitability ratios compared with urban-based entrepreneurs (26 percent versus 29 percent respectively);
- have weaker ability to meet their short-term financial obligations than urban-based entrepreneurs (average ratio between assets and liabilities for rural-based SMEs is 1.4 compared with 1.7 for urban-based SMEs); and

- have comparable long-term solvency ratios (average debt and debt-to-equity ratios of rural-based SMEs were 0.52 and 1.1, respectively, compared with 0.53 and 1.14, respectively, for urban-based SMEs).

Compared with their urban counterparts, rural-based SMEs are more likely to request formal sources of financing such as commercial credit, leasing and government funding, and are more likely to be approved. More importantly, and a major characteristic of rural-based SMEs, is their likelihood to approach credit unions/Caisses populaires for financing. More than one third of rural-based SMEs do their day-to-day banking with credit unions and Caisses populaires compared with only 15 percent of urban-based SMEs.

Rural-based SMEs are more likely to deal with one financial institution for longer periods of time than urban-based SMEs. Forty-three percent of rural-based SMEs have been dealing with the same financial institution for more than 10 years compared with 33 percent of urban-based SMEs. This may reflect the fact that fewer financial institutions are present in rural areas.

A comparison of key characteristics of rural-based and urban-based entrepreneurs is presented in Table 1. The full profile will be posted on the SME FDI website at www.sme-fdi.gc.ca in the near future.

Table 1: Profile of Entrepreneurs — Comparison between Rural- and Urban-Based Entrepreneurs, 2004

Rural-Based Entrepreneurs	Characteristics	Urban-Based Entrepreneurs
12 percent owned by women, 46 percent owned by men and 27 percent equal partnerships	Gender	16 percent owned by women, 55 percent owned by men and 18 percent equal partnerships
14 percent are under 40 years of age	Age	20 percent are under 40 years of age
70 percent speak English, 24 percent speak French and 6 percent speak a non-official language	Language	66 percent speak English, 17 percent speak French and 17 percent speak a non-official language
1 percent visible minority, 2 percent Aboriginal and 6 percent disabled	Minority Status	10 percent visible minority, 1 percent Aboriginal and 3 percent disabled
81 percent have more than 10 years	Managerial Experience	65 percent have more than 10 years
6 percent of businesses had revenue from exports	Export Activity	9 percent of businesses had revenue from exports
64 percent started from scratch and 22 percent acquired from family member	Avenue Used to Become Owner	80 percent started from scratch and 5 percent acquired from family member

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004.

BUSINESS *Insolvencies*

Business insolvencies, which include bankruptcies¹ and proposals,² totalled 1908 by the end of the second quarter of 2007, representing a 9.1-percent decrease from the first quarter of 2007. The decrease was driven by the 10.6-percent decrease in bankruptcies along with the 1.7-percent decrease in proposals during the same period. When compared with the same quarter in 2006, bankruptcies and proposals experienced a year-over-year decrease of 13.4 percent and 4.7 percent, respectively, resulting in a 12-percent decrease in business insolvencies.

Overall, the total liabilities of insolvencies for all sectors showed a year-over-year decrease of 43 percent, and a decrease of 73 percent between the first and second quarters of 2007. As shown in Figure 1, following the dramatic first-quarter jump in the average liability value, this value saw a drop from \$1 894 758 to \$556 510, which is more in line with the average in previous quarters. The unusual increase in liabilities recorded in the first quarter of 2007 was associated with high-valued bankruptcies in the information and cultural industries sector. A year-over-year comparison from the second quarter of 2006 shows a decrease in the average liability of insolvencies by 35.6 percent from \$863 576.

During the second quarter of 2007, four industry sectors accounted for more than half the volume of insolvencies: construction (326), retail trade (247), manufacturing (202), and transportation and warehousing (197). When compared with the same period in 2006, the decrease in the volume of “professional, scientific and technical services” insolvencies (46) was the highest among all sectors.

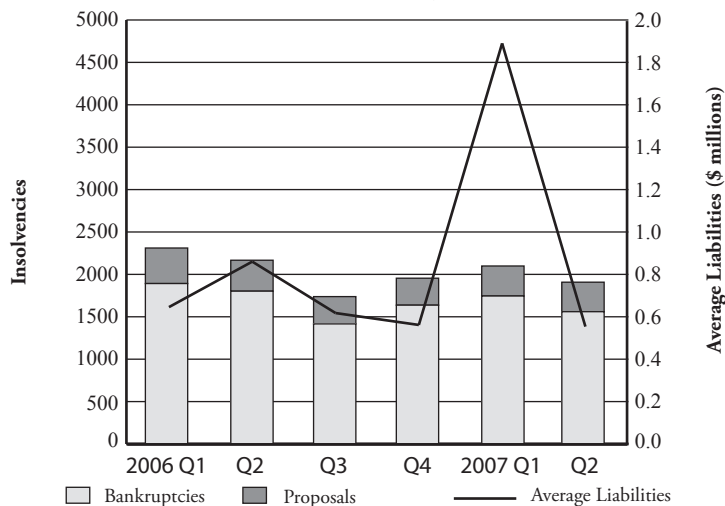
The agriculture, forestry, fishing and hunting sector experienced the highest year-over-year monetary increase in insolvencies when compared with the second quarter of 2006. Although the volume of total insolvencies for this sector decreased by 30 percent during this period, the liability increased by 129 percent. Within the same period, the finance and insurance sector experienced the highest year-over-year monetary decrease in insolvencies at 98 percent.

For more information on business insolvencies, visit the website of the Office of the Superintendent of Bankruptcy Canada at www.osb-bsf.gc.ca.

¹ Bankruptcy refers to the liquidation of the debtor's business assets and the end of the commercial entity's operations.

² Proposals involve the settling of debts between the debtor and its creditors while still allowing the business to continue operating.

Figure 1: Breakdown of Insolvencies by Bankruptcies and Proposals, and Associated Average Liabilities*



* Bankruptcies and proposals represent total business insolvencies.

Source: Office of the Superintendent of Bankruptcy Canada (www.osb-bsf.gc.ca)



JOB *Creation*

According to the latest *Survey of Employment, Payrolls and Hours* from Statistics Canada, the number of payroll employees continued to increase in the first quarter of 2007 by 285 728 compared with the first quarter of 2006 (Table 2). However, this increase corresponds to an annual growth of 2.1 percent, the lowest over the past four quarters. Large firms represented roughly half of the employment growth (52.9 percent) over the last year in Canada. Employment growth over the same period was 19.4 percent from medium-sized businesses and 27.7 percent from small businesses.¹ Compared with the previous quarter, the contribution from small businesses decreased by 10.1 percentage points.

In the first quarter of 2007, year-over-year employment growth was highest in the mining and oil and gas extraction sector at 9.9 percent. Construction (4.9 percent), accommodation and food services (3.9 percent), retail trade (3.8 percent) and professional, scientific and technical services

(3.8 percent) were the next sectors that grew the most. The sector with the largest increase in the number of new jobs among small businesses was the construction sector (22 297 jobs), followed by the health care and social assistance sector (15 483 jobs).

Between the first quarter of 2007 and the first quarter of 2006, job declines were reported in forestry (-9.6 percent), manufacturing (-2.4 percent), and management of companies and enterprises (-0.7 percent). The manufacturing sector experienced the greatest number of jobs lost at 44 182, of which 16 405 were lost among small businesses and 30 061 were lost among large businesses.

¹ Small businesses are defined as having fewer than 100 employees, medium-sized businesses having 100 to 499 employees and large businesses having 500 or more employees.

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Table 2: Year-Over-Year Net Change¹ in Payroll Employment² by Industry, First Quarter 2007

Quarter	Change		% Contribution to Total Net Change (Number of Employees)								
	%	Jobs	0-4	5-19	20-49	50-99	0-99	100-299	300-499	100-499	500+
Q1 2006	2.7	351 389	5.2	10.7	11.7	9.6	37.1	14.4	0.7	15.1	47.8
Q2 2006	2.8	379 019	6.2	11.2	11.4	9.9	38.7	10.3	2.8	13.0	48.2
Q3 2006	2.5	332 268	4.9	8.1	10.0	9.7	32.7	8.6	4.0	12.5	54.8
Q4 2006	2.3	320 298	11.6	1.0	13.0	12.2	37.8	7.2	5.3	12.6	49.6
Q1 2007	2.1	285 728	-1.7	9.9	11.9	7.5	27.7	11.8	7.6	19.4	52.9
Industry	Growth (Jobs), First Quarter 2007										
Forestry	-9.6	-5 264	-497	-1 097	-1 499	-260	-3 353	-821	-1 580	-2 401	491
Mining and oil and gas extraction	9.9	17 029	823	1 318	1 542	908	4 591	1 447	2 509	3 956	8 484
Utilities	0.3	372	105	305	27	-54	383	-232	1 080	848	-860
Construction	4.9	31 614	6 791	5 106	6 250	4 150	22 297	3 030	1 848	4 878	4 439
Manufacturing	-2.4	-44 182	-3 333	-241	-5 745	-7 086	-16 405	-5 277	7 562	2 285	-30 061
Wholesale trade	2.5	17 817	-338	1 772	1 795	1 092	4 321	-487	6 830	6 343	7 153
Retail trade	3.8	62 787	-3 380	753	3 744	2 013	3 130	15 325	636	15 961	43 696
Transportation and warehousing	2.7	16 549	-309	356	-555	458	-50	174	-353	-179	16 778
Information and cultural industries	1.2	4 257	-200	372	-322	1 921	1 771	712	1 852	2 564	-80
Finance and insurance	3.7	21 982	-66	399	-44	152	441	-1 749	639	-1 110	22 649
Real estate and rental and leasing	0.9	2 267	-248	1 756	1 188	1 266	3 962	1 561	760	2 321	-4 017
Professional, scientific and technical services	3.8	26 207	-688	6 402	3 536	3 038	12 288	4 780	1 056	5 836	8 082
Management of companies and enterprises	-0.7	-637	687	655	966	536	2 844	689	-329	360	-3 840
Administrative and support, waste management and remediation services	2.5	16 478	864	3 005	2 283	754	6 906	2 348	4 653	7 001	2 571
Educational services	1.9	21 650	389	925	1 248	-41	2 521	809	-2 609	-1 800	20 929
Health care and social assistance	2.3	32 706	1 041	5 375	5 643	3 424	15 483	-2 893	-2 442	-5 335	22 559
Arts, entertainment and recreation	1.9	4 041	3	108	-13	616	714	680	-1 429	-749	4 076
Accommodation and food services	3.9	36 572	-6 373	-531	12 198	8 889	14 183	7 855	1 861	9 716	12 674
Other services (excluding public administration)	2.1	10 595	-15	1 379	1 483	-120	2 727	1 287	277	1 564	6 303
Public administration	1.6	12 888	-139	273	387	-152	369	4 399	-1 110	3 289	9 232
Canada total	2.1	285 728	-4 883	28 389	34 112	21 506	79 124	33 634	21 712	55 346	151 257

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, September 2007.

¹ Year-over-year net change in payroll employment is calculated as the variation between the level of employment in a given quarter and the level in the same quarter a year before.

² *Survey of Employment, Payrolls and Hours* data exclude self-employed workers who are not on a payroll and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.



SELF-*Employment*

Using results from the *Labour Force Survey*, Table 3 provides a breakdown of the educational attainment of employed individuals and various categories of self-employed workers from 2000 and 2006. The labour force is more educated than ever, with over 50 percent of employed and self-employed workers having at least a post-secondary education.

Table 3 also shows that during the six-year period the composition of the labour force has been changing. The number of workers with less than a high school education has been decreasing, while the number of workers with a post-secondary education has been increasing. This has resulted in a larger share of employed and self-employed workers with a post-secondary education. Between 2000 and 2006, the share of employed with a post-secondary certificate/diploma rose from 32.8 percent to 34.8 percent. For the self-employed with a post-secondary certificate/diploma, the share rose from 31.0 percent to 33.3 percent. Similarly, the share of employed and

self-employed workers with a university degree rose to 22.6 percent and 26.0 percent respectively.

There are no significant differences between employees and the self-employed in terms of educational attainment, suggesting that education is not a factor explaining why people become employed or self-employed.

The same phenomenon of increasing educational attainment between 2000 and 2006 is present across all categories of self-employed workers. The category with the highest share of individuals with a post-secondary certificate, at 35.5 percent, is incorporated self-employed workers without paid help. In 2006, the highest share of self-employed workers with a university degree, at 29.8 percent, was found among those who were unincorporated with paid help. The largest gain in the share of workers with a university degree, out of the four categories, occurred in the unincorporated without paid help category. The change was from 18.3 percent to 24.5 percent.

Table 3: Share of Self-Employed Workers¹ and Employed by Category of Worker and Education Level, Canada, 2000 and 2006

Education Level	Employed						Incorporated - Proportions				Unincorporated - Proportions			
	Employed			Self-Employed			With Paid Help		Without Paid Help		With Paid Help		Without Paid Help	
	Share (%)		Percent Change ²	Share (%)		Percent Change ³	Share (%)		Share (%)		Share (%)		Share (%)	
	2000	2006		2000	2006		2000	2006	2000	2006	2000	2006	2000	2006
0-8 years	3.2	2.5	-13.2	6.2	4.3	-27.0	4.5	3.6	4.4	3.1	6.7	4.6	6.8	4.7
Some high school	13.1	10.9	-6.8	13.3	10.3	-18.1	10.2	8.4	10.1	8.8	11.9	10.2	15.2	11.5
High school graduate	21.3	20.8	9.9	19.6	19.6	5.1	19.8	21.1	18.7	18.9	18.8	19.5	19.8	19.0
Some post-secondary	10.2	8.5	-5.5	7.8	6.5	-12.0	7.9	6.8	7.7	6.0	6.1	5.7	8.1	6.6
Post-secondary certificate/diploma	32.8	34.8	19.7	31.0	33.3	13.1	31.4	32.9	32.5	35.5	27.6	30.2	31.7	33.8
University degree	19.3	22.6	32.1	22.2	26.0	23.3	26.2	27.1	26.5	27.7	29.0	29.8	18.3	24.5
All levels	100.0	100.0	12.9	100.0	100.0	5.2	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: *Labour Force Survey*, Statistics Canada.

¹ Unpaid family workers are not shown in this table due to their small number.

² Percent change in employed workers from 2000 to 2006.

³ Percent change in self-employed workers from 2000 to 2006.

FINANCING

Small and Medium-Sized Enterprises in Quebec

Statistics Canada's 2004 *Survey on Financing of Small and Medium Enterprises* has been used to develop profiles of the financing needs and activities of small and medium-sized firms in each of the five regions of Canada — British Columbia, the Prairie provinces, Ontario, Quebec and the Atlantic provinces. Following the profile of British Columbia in the previous issue of the *Small Business Quarterly*, below is a summary of the profile for Quebec.

Just over 300 000 SMEs¹ operated in Quebec in 2004. Their size, distribution across industry sectors and financing activities are similar to those observed for all SMEs in Canada. They are mostly very small businesses — 97 percent employ fewer than 20 people. Within this group, 47 percent are self-employed and a further 36 percent have 1–4 employees. SMEs in the province operate in all major industry sectors, with 80 percent in the services sector and 5 percent in knowledge-based industries. The survey also reveals that 22 percent of all SMEs in Quebec applied for some form

of external financing in 2004. Of the three types of financing shown in Table 4, there was a higher request rate for debt financing from SME's in Quebec and other provinces.

Significant departures from the national average are observed in Quebec. Almost half of all requests for financing were made to chartered banks (49 percent) versus the national rate of 63 percent. This disparity can be explained by the greater reliance in Quebec on credit unions and Caisses populaires (39 percent versus 23 percent of all SMEs in Canada use these financial institutions). As well, reflecting the province's success at raising venture capital, Quebec alone among the regions exhibits a share of national venture capital investments (39 percent) that far exceeds its share of knowledge-based industries (17 percent).

The profiles for the regions in this series can be found on the SME Financing Data Initiative website at www.sme-fdi.gc.ca.

¹ SMEs are defined as having fewer than 500 employees and less than \$50 million in annual revenues.

Table 4: Financing Request and Approval Rates, 2004

		British Columbia	Prairie Provinces	Ontario	Quebec	Atlantic Provinces	Canada
Type of Financing		%					
Debt Financing	Request Rate	20	23	15	18	20	19
	Approval Rate	82	82	77	88	82	81
Lease Financing	Request Rate	4	5	2	3.2	3	3
	Approval Rate	88	99	98	97	94	96
Equity Financing	Request Rate	1.1	0.9	1.3	1.4	1.7	1.2
	Approval Rate*	78	—	—	—	80	—
Government Grant or Subsidy	Request Rate	1.8	6	1.5	3.1	3.9	3
	Approval Rate	—	72	72	68	80	70

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004.

* Data not available due to low quality or confidentiality concerns.

RECENT *Developments*

Small Business Week (Oct. 14–20, 2007)

Small Business Week celebrated the contributions of small businesses and entrepreneurs to the Canadian economy. This year's theme, "A world without boundaries, open to new markets," was used to highlight the growing opportunities for small businesses in the international market. Highlights of the week included the Business Development Bank of Canada (BDC) Youth Entrepreneur Awards, which recognize young entrepreneurs who have distinguished themselves for their business sense and innovative spirit.

The Canadian Federation of Independent Business (CFIB) separately presented an award to the Honourable Diane Ablonczy, Secretary of State (Small Business and Tourism), to acknowledge the Government of Canada's leadership in reducing paper burden.

World Bank Report: *Doing Business 2008*

In September of 2007, the World Bank released its annual assessment of regulations that impact business activity entitled *Doing Business 2008*. Canada ranked seventh out of 178 countries in terms of the overall ease of doing business, and continues to be ranked among the top ten countries in the following four areas: second place for starting a business, fourth for closing a business, fifth for protecting investors and seventh for getting credit. Canada achieved a higher ranking or a tie with the United States in five categories: starting a business, protecting investors, closing a business, getting credit and paying taxes.

For more information on the World Bank report, visit www.doingbusiness.org.

Global Value Chain Conference (Sept. 25–26, 2007)

A conference on global value chains (GVCs) was held in Ottawa. The objectives were to further understand the implications of GVCs on industries and the economy, and to clarify the role of governments in facilitating competitiveness in a globally linked value chain world.

About 275 people attended this conference, including representatives from the federal and provincial governments, academia, think tanks and the private sector, as well as delegates from the Organisation for Economic Co-operation and Development.

The conference provided a deeper understanding and appreciation for the importance and impacts of GVCs on industries and the economy. Encouraging firms, especially SMEs, to participate in GVCs is a particular challenge and policy recommendations were identified at the conference to help in this regard: raising SME awareness, improving supplier financing, protecting SME intellectual property rights, encouraging clusters and networks, simplifying compliance procedures to meet product and process standards, and promoting skills development.

More information on the Global Value Chain Conference can be found at www.strategis.ic.gc.ca.

Small Business Quarterly Small Business Policy Branch

The *Small Business Quarterly* (SBQ) provides a quick and easy-to-read snapshot of the recent performance of Canada's small business sector. The SBQ is published by the Small Business Policy Branch of Industry Canada.

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Manique Weerasinghe
E-mail: weerasinghe.ranmalmanique@ic.gc.ca

Small Business Policy Branch
Industry Canada
235 Queen Street
Ottawa ON K1A 0H5
Tel.: 613-941-1462
Fax: 613-946-1035
Website: www.strategis.gc.ca/sbresearch

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Cat. No. C12-18/9-3

ISSN 1205-9099

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