

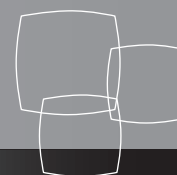


Industry
Canada

Industrie
Canada

Canada

www.ic.gc.ca/SMEquarterly



SMALL BUSINESS QUARTERLY

VOLUME 12, No. 4, FEBRUARY 2011

PERFORMANCE

Trends

- The number of payroll employees increased by 0.7 percent in the third quarter of 2010 compared with the same period in 2009, corresponding to a net increase of 94 681 jobs. Small business¹ employment increased by 0.9 percent, while employment in medium-sized firms and large firms increased by 1.5 percent and 0.1 percent respectively.
- The number of jobs among micro-businesses (fewer than five employees) in Canada dropped by 3.6 percent. On the other hand, these job losses were more than offset by employment gains among small businesses with more than four employees. In particular, the number of jobs among small businesses with 50 to 99 employees grew by 2.7 percent.
- The number of self-employed workers fell by 25 000 between the third quarter of 2009 and the third quarter of 2010, corresponding to an annual decrease of 0.9 percent.
- In 2007, only 7 percent of non-employer businesses (those with no employees) reported exporting activities, but the export propensity increased to 11 percent for businesses with 5 to 19 employees, 23 percent for businesses with 20 to 99 employees and 33 percent for businesses with 100 to 499 employees.
- Exporters were almost twice as likely to request debt financing as non-exporters in 2007 (21 percent versus 12 percent respectively). Nevertheless, small and medium-sized enterprise exporters and non-exporters had similar rates of approved financing.

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.

ANALYSIS OF REGULATORY COMPLIANCE COSTS: PART II

Paperwork time burden, costs of paperwork compliance and paperwork simplification

Business owners have long been concerned by the amount of government paperwork they have to complete.¹ The concern is that excessive paperwork unnecessarily steals time away from core value-added activities — producing and selling goods and services — and, ultimately, leads to higher operating costs.

Mandated by the Government of Canada in 2005, Statistics Canada in partnership with Industry Canada created the *Survey of Regulatory Compliance Costs*. The goal of this survey is to collect information on the cost and nature of the paperwork burden imposed on small and medium-sized enterprises (SMEs) and to track changes in that burden over time.² Survey results are intended to help policy-makers identify potential areas for reform and develop initiatives to streamline the quantity and complexity of paperwork requirements.

Key Findings from the 2008 Survey

Paperwork Time Burden

SMEs were asked to estimate the amount of time spent by internal staff to prepare submissions for the 12 regulations covered in the survey. This included time spent to retrieve and review information, complete and submit forms, deal with follow-up, train staff to handle compliance activities, and meet and communicate with service professionals.

(continued on page 2)

Contents

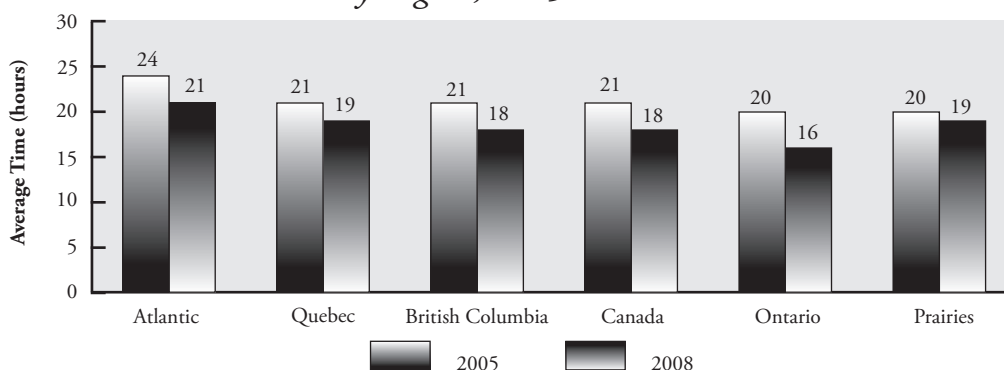
Job Creation	3
Self-Employment	5
Exporting Small and Medium-Sized Enterprises	5
Canadian Entrepreneurship Status 2010	6
Recent Developments / Upcoming Event	8

(continued from page 1)

Overall, SMEs spent approximately 10.4 million hours in 2008 complying with the 12 regulations, corresponding to an average annual time burden of 18 hours per establishment. Between 2005 and 2008, the total and average paperwork time burden declined, with the total paperwork time burden decreasing by 8 percent and the average paperwork time burden decreasing by 15.4 percent.

Furthermore, an analysis of the paperwork time burden by region revealed that the average amount of time spent by SMEs complying with the 12 regulations decreased in all regions, most notably in Ontario, British Columbia and the Atlantic provinces (Figure 1).

Figure 1: Average Time Spent on Compliance per Establishment, by Region, 2005 and 2008



Source: Statistics Canada, *Survey of Regulatory Compliance Costs*, 2005 and 2008.

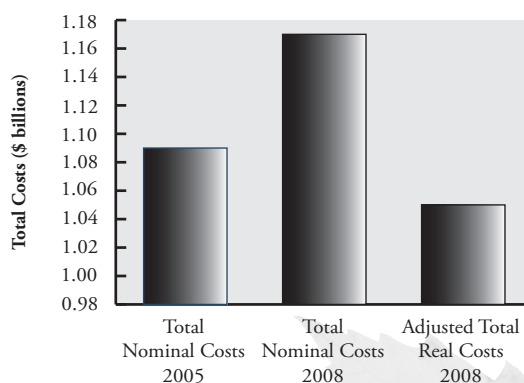
Total Costs of Paperwork Compliance

The total nominal cost of complying with the 12 regulations increased from \$1.09 billion in 2005 to \$1.17 billion in 2008, an increase of 7.3 percent (Figure 2); however, after adjusting for inflation and the net increase in the number of new businesses in operation, total real costs in 2008 decreased by approximately 2.8 percent from 2005 levels.

Paperwork Simplification

To identify areas that could provide SMEs with the greatest relief from the government paperwork burden, survey respondents were asked to identify what they would most like to see improved about each of the 12 regulations covered in the survey. For 11 of the 12 regulations, the majority of businesses reported that they were fine the way they were. However, at least a quarter of the businesses still felt that some type of paperwork simplification was necessary, such as fewer reporting requests, simplified claims/forms or improved methods of electronic filing.

Figure 2: Total Compliance Costs (Nominal and Adjusted), 2005 and 2008



Source: Industry Canada calculations; and Statistics Canada, *Survey of Regulatory Compliance Costs*, 2005 and 2008.

(continued on page 3)

(continued from page 2)

The full report can be accessed on Industry Canada's Paperwork Burden Reduction Initiative website at www.reducingpaperburden.gc.ca/Survey.

¹ Government paperwork refers to claims, forms and submissions that businesses are required to fill out and submit, either on paper or electronically, to stay in compliance with government regulations. This includes income tax forms, sales tax submissions, payroll reports such as T4s and T4 summaries, employment-related information requests such as the Record of Employment, survey questionnaires, and workers' compensation claims and forms. For this analysis, regulatory paperwork excludes routine ongoing record-keeping activities performed for day-to-day business operation.

² Over 30 000 SMEs participated in the 2008 survey. The results were extrapolated to a target population of approximately 685 000 SMEs covering five sectors — manufacturing; retail trade; professional, scientific and technical services; accommodation and food services; and other services — representing approximately 30 percent of the 2.3 million businesses in Canada.

JOB *Creation*

According to the latest release of Statistics Canada's *Survey of Employment, Payrolls and Hours*, the number of payroll employees increased by 0.7 percent (94 681 jobs) in the third quarter of 2010 compared with the same period in 2009 (Table 1). This job increase followed a year-over-year employment gain of 0.2 percent (28 893 jobs) in the previous quarter (Q2 2010). By firm size, small business employment increased by 0.9 percent, while employment in medium-sized firms and large firms increased by 1.5 percent and 0.1 percent respectively. The contribution to the overall employment increase by small businesses was 56.9 percent, which is higher than their share of employment in the economy. Medium-sized and large firms contributed 34.5 percent and 8.6 percent, respectively, to the net increase in employment.

Compared with the same quarter in 2009, the third quarter of 2010 saw small business employment increasing in every province and territory. Among the provinces, Newfoundland and Labrador posted the greatest percentage increase in small business employment at 2.8 percent, followed by Ontario at 1.3 percent.

While employment among small businesses grew overall, the number of jobs among micro-businesses (fewer than five employees) in Canada dropped by 3.6 percent, with Quebec posting the largest decrease among the provinces at 5.3 percent. However, these job losses were more than offset by employment gains among small businesses with more than four employees. In particular, small businesses with 50 to 99 employees posted the largest increase in employment among all business size categories explored, growing by 2.7 percent. Also noteworthy is the employment increase among small businesses with 5 to 19 employees (1.9 percent), contributing 39.1 percent to the overall net increase in employment.

(continued on page 4)



(continued from page 3)

Table 1: Year-Over-Year Net Change¹ in Payroll Employment² by Province and Territory, 3rd Quarter 2010

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+
Q3 2009	-2.5	-372 315	-4.4	20.7	14.7	19.2	50.1	14.7	14.3	29.0	20.9
Q4 2009	-2.2	-325 721	4.3	9.7	7.3	13.7	35.1	19.9	10.7	30.6	34.3
Q1 2010	-0.9	-128 249	-1.8	2.3	10.8	9.3	20.5	19.4	18.1	37.5	42.0
Q2 2010	0.2	28 893	49.6	13.7	25.2	34.5	123.0	-5.9	-19.6	-25.6	2.5
Q3 2010	0.7	94 681	-39.1	39.1	23.4	33.6	56.9	23.1	11.3	34.5	8.6
Province and Territory			Growth Rates (%)								
Newfoundland and Labrador	2.5	4 823	-3.5	5.0	2.0	6.0	2.8	-3.4	-7.0	-4.4	3.9
Prince Edward Island	1.7	1 110	4.0	-0.2	-4.6	7.5	0.4	-1.6	51.5	9.6	0.8
Nova Scotia	2.9	11 430	-3.7	2.5	-1.8	4.4	0.6	0.7	-10.3	-2.8	6.6
New Brunswick	3.0	9 463	-2.2	0.2	0.0	4.6	0.6	4.0	0.5	3.0	5.1
Quebec	0.5	15 580	-5.3	1.3	0.8	5.1	0.9	2.3	1.4	2.0	-0.5
Ontario	0.6	34 169	-3.5	1.9	2.8	2.4	1.3	1.7	1.0	1.5	-0.2
Manitoba	-0.2	-1 280	-2.9	0.9	1.1	-0.4	0.1	3.0	-3.5	1.1	-0.9
Saskatchewan	0.6	2 467	-1.6	0.9	1.4	2.3	0.2	5.5	0.2	0.0	-0.8
Alberta	0.8	13 403	-2.6	2.7	0.7	2.4	1.0	0.7	0.6	0.7	0.6
British Columbia	0.1	1 527	-3.4	2.5	0.5	-0.6	0.2	-1.9	12.1	1.9	-0.7
Yukon ³	2.2	447	3.2	2.7	9.7	19.8	6.9	4.7	—	—	—
Northwest Territories ³	2.8	749	0.8	-0.7	6.9	-2.3	1.3	5.2	—	—	—
Nunavut ³	7.7	792	1.6	-0.4	15.2	-0.2	5.0	35.1	—	—	—
Canada Total	0.7	94 681	-3.6	1.9	1.4	2.7	0.9	1.4	1.8	1.5	0.1

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, September 2010.

Note: Employment by firm size differs for the two following surveys: *Labour Force Survey* (LFS) and *Survey of Employment, Payrolls and Hours* (SEPH). LFS allocates businesses by establishment size while SEPH, normally used in the *Small Business Quarterly*, allocates businesses by enterprises. For example, a firm, with less than 100 employees, within an enterprise will be counted as a small firm establishment in the LFS, but will be counted as an enterprise in the SEPH (a medium-sized or large enterprise).

¹ Year-over-year 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.

³ Data for firms with 300 or more employees in Yukon, the Northwest Territories and Nunavut are suppressed due to confidentiality restrictions, but are included in the territorial totals.

SELF-Employment

According to Statistics Canada's *Labour Force Survey*, the number of self-employed workers fell by 25 000 between the third quarter of 2009 and the third quarter of 2010, corresponding to a decrease of 0.9 percent (Table 2). In contrast, the number of employees increased by 2.7 percent over the same period from 14 275 000 to 14 665 000.

By occupational group, the largest decrease in the number of self-employed workers occurred in sales and service, followed by primary industry¹ (43 000 and 21 000 fewer self-employed workers respectively). Other occupational groups that experienced a drop in self-employment over the same period include occupations unique to processing, manufacturing and utilities; and art, culture, recreation and sport (decreasing by 22.0 percent and 5.0 percent respectively). In contrast, occupational groups that experienced an increase in self-employment included natural and applied sciences (15.8 percent) and social science, education, government service and religion (14.9 percent).

By type of self-employment, the number of incorporated and unincorporated self-employed workers did not fluctuate significantly. On the other hand, the number of incorporated self-employed workers without paid help increased by 3.6 percent, while the number of incorporated self-employed workers with paid help decreased by 2.1 percent. For unincorporated self-employed workers, the reverse occurred with the number of unincorporated self-employed workers with paid help increasing by 2.6 percent, while the number of unincorporated self-employed workers without paid help decreased by 2.1 percent.

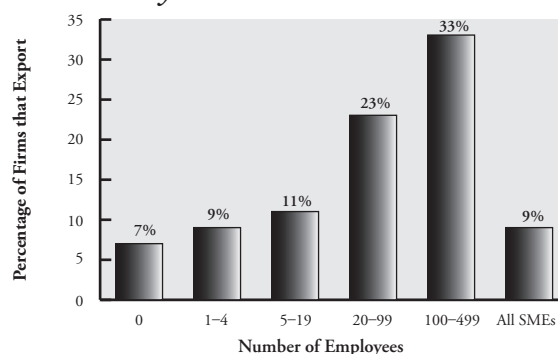
In the third quarter of 2010, the occupational groups with the largest shares of self-employed individuals were management (19.7 percent); trades, transport and equipment operators (16.4 percent); and sales and service (15.4 percent).

¹ Occupations in this broad category are primarily concerned with operating farms and supervising or doing farm work; operating fishing vessels and conducting specialized fishing work; and carrying out supervisory and production work in oil and gas production and forestry and logging.

(continued on page 6)

Using the 2007 results of Statistics Canada's *Survey on Financing of Small and Medium Enterprises*, Industry Canada analyzed the exporting and financing activities of Canadian SMEs. In 2007, participation in the global market was low among SMEs, with only 9 percent exporting goods or services. However, survey results revealed that export propensity (percentage of firms that export) varied considerably by firm size (Figure 3). Only 7 percent of non-employer businesses (those with no employees) reported exporting activities, but export propensity increased to 11 percent for businesses with 5 to 19 employees, 23 percent for businesses with 20 to 99 employees and 33 percent for businesses with 100 to 499 employees.

Figure 3: Export Propensity by Business Size, 2007



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

While the likelihood of exporting increased with business size, export intensity (percentage of revenues derived from exports) did not follow the same pattern. As shown in Figure 4, export intensity among SMEs that exported was similar across all size groups, excluding non-employer businesses, with an overall average of 47 percent. In particular, exporters with 1 to 4 employees had an average export intensity of 49 percent. These results indicate that SMEs can be actively engaged in exporting activities regardless of business size.

(continued on page 7)

(continued from page 5)

Table 2: Self-Employed Workers and Employees by Occupational Group, Third Quarter for 2009 and 2010

Occupational Group	Employees				Self-Employed				Incorporated				Unincorporated			
				2010 Share				2010 Share	With Paid Help		Without Paid Help		With Paid Help		Without Paid Help	
	Q3 2009	Q3 2010	Percentage Change		Q3 2009	Q3 2010	Percentage Change		Q3 2009	Q3 2010	Q3 2009	Q3 2010	Q3 2009	Q3 2010	Q3 2009	Q3 2010
	(Thousands)			(%)	(Thousands)			(%)	(Thousands)							
Business, finance and administration	2 770	2 804	1.2	19.1	302	305	1.2	11.2	61	60	72	72	20	20	142	146
Health	928	979	5.5	6.7	137	143	4.1	5.2	40	37	18	22	23	24	56	60
Management	1 008	1 014	0.6	6.9	532	534	0.5	19.7	260	231	80	76	56	67	135	161
Natural and applied sciences	1 051	1 100	4.7	7.5	145	168	15.8	6.2	28	32	52	68	7	7	58	61
Art, culture, recreation and sport	359	377	4.9	2.6	211	201	-5.0	7.4	13	12	36	35	6	9	157	145
Social science, education, government service and religion	1 296	1 342	3.5	9.2	171	196	14.9	7.2	15	23	15	24	19	21	123	128
Primary industry	331	349	5.5	2.4	289	268	-7.4	9.9	46	51	48	44	31	25	154	142
Sales and service	3 688	3 763	2.0	25.7	462	419	-9.3	15.4	58	60	62	59	31	32	306	265
Trades, transport and equipment operators	2 090	2 155	3.1	14.7	447	447	0.1	16.4	94	97	93	98	43	38	215	213
Occupations unique to processing, manufacturing and utilities	753	783	3.9	5.3	48	38	-22.0	1.4	17	15	10	6	4	3	17	13
Total, all occupational groups	14 275	14 665	2.7	100	2 743	2 718	-0.9	100	631	618	486	503	239	245	1 363	1 334

Source: Statistics Canada, *Labour Force Survey*, 2009 and 2010.

CANADIAN ENTREPRENEURSHIP

Status 2010

Rising Entrepreneurship across Canada

The Business Development Bank of Canada (BDC) released a report in September 2010 entitled *Canadian Entrepreneurship Status 2010*. Prepared by the Fondation de l'entrepreneuriat in collaboration with Léger Marketing, the report revealed that between 2009 and 2010 entrepreneurial intentions and active ventures increased across the country. Part of this national trend was attributed to the economic crisis as the regions most affected by the recent recession (i.e., Western Canada and Ontario) were also the regions that experienced the largest increase in entrepreneurial activity.

The report used four indicators that represent the entrepreneurial process: entrepreneurial intention, venture (or business creation) efforts, business ownership and business closures. The percentage of the Canadian population that intended to create a new business or take over an existing business increased from 7.0 percent in 2009 to 11.2 percent in 2010 (Table 3). The percentages associated with business creation efforts and business ownership also increased, but the incidence of business closures grew as well.

(continued on page 7)

Regionally, Alberta – British Columbia led the country in entrepreneurial activity in 2010. Individuals in this region were most likely to declare intentions to start a business (16.9 percent), be actively involved in creating a business (6.1 percent) and own a business (13.2 percent).

Table 3: Population (%) Involved in the Entrepreneurial Process by Region

	Canada	Canada	Alta.– B.C.	Man.– Sask.	Ont.	Que.	Atlantic Provinces
	2009		2010				
Entrepreneurial Intention	7.0	11.2	16.9	10.5	11.1	6.9	8.8
Venture (business creation) Efforts	3.2	4.6	6.1	3.5	4.8	3.6	3.1
Business Ownership	8.7	10.1	13.2	12.5	11.4	5.1	7.4
Business Closures	5.4	6.7	8.5	7.9	6.4	5.5	5.5

Source: Fondation de l'entrepreneuriat, *Canadian Entrepreneurship Status 2010*, July 2010.

The report revealed that for 44.4 percent of those who intended to start a business, the main reason behind their intentions was to take advantage of a business opportunity. In sharp contrast, only 7.7 percent of those with start-up intentions indicated that they wanted to start a business because they had no other choice.

The report also revealed that young entrepreneurs (18–34 years of age) were more likely to focus on growth, whereas older entrepreneurs were more interested in innovation. In 2010, 71.2 percent of young entrepreneurs indicated that they wanted to grow their businesses compared with 53.2 percent of owners 55 years of age and over. Conversely, only 26.3 percent of young entrepreneurs envisaged investing in innovation compared with 41.6 percent of owners 55 years of age and over.

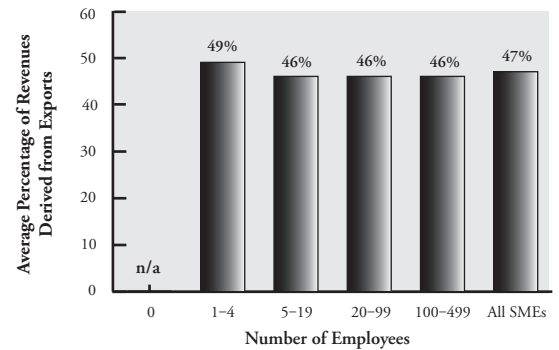
A company's size also affected entrepreneurial attitudes and behaviour as the desire to grow a company increased with the number of employees. In 2010, 85.9 percent of entrepreneurs with more than 10 employees wanted to grow their business compared with only 61.7 percent of entrepreneurs with 1 to 3 employees.

To read the full report, go to www.bdc.ca/EN/about/sme_research/Pages/default.aspx.

Exporting

Small and Medium-Sized Enterprises

Figure 4: Average Export Intensity by Business Size, 2007



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

Note: Information for non-employer firms (no employees) is not available due to confidentiality.

As shown in Table 4, SME exporters were more likely to seek external financing than non-exporters in 2007 (27 percent versus 17 percent respectively). The most common type of financing sought by both exporters and non-exporters was debt financing; however, the percentage of exporters (21 percent) that sought debt financing was almost double that of non-exporters (12 percent). Nevertheless, SME exporters and non-exporters had similar rates of approved financing, suggesting that exporters did not face any unique challenges in terms of access to financing in 2007.

Table 4: Request and Approval Rates (%) by Type of Financing, 2007

	Request Rate		Approval Rate*	
	Exporters	Non-Exporters	Exporters	Non-Exporters
Any External Financing	27	17	97	96
Debt	21	12	94	93

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

* These rates exclude applications that were still under review or withdrawn.

Additional information on Canadian exports by business size, industry and destination can be found in the upcoming special edition of *Key Small Business Statistics*, which will be available in spring 2011. To receive the publication, please subscribe online at www.ic.gc.ca/SMEstatistics/subscription.

RECENT *Developments*

WORLD BANK AND IFC:

Doing Business 2011: Making a Difference for Entrepreneurs

In November 2010, the World Bank and the International Finance Corporation (IFC) published the eighth annual report *Doing Business 2011: Making a Difference for Entrepreneurs*. The report provides quantitative measures of various aspects of starting, financing and operating a business from economic and legal perspectives. The latest edition pioneers a new measure to show how much business regulation has changed in 174 economies since 2005. Canada currently ranks seventh among 183 countries on the ease of doing business.

To read the full report, visit www.doingbusiness.org.

Small Business Quarterly

Small Business and Tourism 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 and Tourism Branch of Industry Canada.

If you would like to subscribe or modify the information in your previous subscription, please make your request at www.ic.gc.ca/SMEstatistics/subscription. If you have questions or comments about the content, please send them to the editor:

Owen Jung

Email: owen.jung@ic.gc.ca

Small Business and Tourism Branch

Industry Canada

235 Queen Street

Ottawa ON K1A 0H5

Tel.: 613-998-2903

Fax: 613-946-1035

Website: www.ic.gc.ca/sbresearch

Permission to Reproduce. Except as otherwise specifically noted, the information in this publication may be reproduced, in part or in whole and by any means, without charge or further permission from Industry Canada, provided that due diligence is exercised in ensuring the accuracy of the information reproduced; that Industry Canada is identified as the source institution; and that the reproduction is not represented as an official version of the information reproduced, nor as having been made in affiliation with, or with the endorsement of, Industry Canada.

For permission to reproduce the information in this publication for commercial redistribution, please email: droitdauteur.copyright@tps-gc-pwgsc.gc.ca

Cat. No. C12-18/12-4

ISSN 1205-9099

60844

OECD: *High-Growth Enterprises:*

What Governments Can Do to Make a Difference

Released in November 2010, the Organisation for Economic Co-operation and Development's (OECD) Centre for Entrepreneurship, SMEs and Local Development released the report *High-Growth Enterprises: What Governments Can Do to Make a Difference*. Presenting reports from 15 countries, this report provides insights into the operations of and challenges faced by high-growth enterprises, including a policy survey of 340 programs in 24 countries that have been put in place to support the growth of enterprises. The report also includes a chapter on financing innovative firms in Canada.

The full report is available for purchase at www.oecd.org.

UPCOMING *Event*

ACE: *Regional and National Expositions*

Advancing Canadian Entrepreneurship (ACE) is holding its annual regional and national expositions in spring 2011. Bringing together industry, educational and student leaders from across Canada, these expositions will feature competitions involving student teams and entrepreneurs.

These events will take place in Halifax (March 10–11, 2011), Calgary (March 13–14, 2011) and Toronto (March 17–18, 2011, and May 9–11, 2011).

For more information on the ACE expositions, visit www.aceexpos.ca.