Catalogue 11-001E (Français 11-001F) ISSN 0827-0465

The Daily

Statistics Canada

Thursday, December 11, 1997
For release at 8:30 a.m.

MAJOR RELEASES

OTHER RELEASES

MAJOR RELEASES

Business bankruptcy in Canada
1996

According to a new study, firms go bankrupt in Canada primarily because their managers lack the experience, know-how, or vision to run their businesses. It is not for want of sophisticated management techniques: it is the lack of ability to master the basics.

This new study confirms that for bankrupt companies as a whole, the most fundamental internal problems are related to poor overall management skills. In particular, these included management's lack of knowledge, lack of vision, and inadequate use of outside advisors.

A second key deficiency occurred in the area of financial management. Seven out of 10 firms failed because of bad financial planning. Three particular problems cropped up regularly: an unbalanced capital structure, an inability to manage working capital, and undercapitalization.

It is sometimes suggested that Canada's financial sector may not do enough to help small young firms get started. This study found that bankrupt firms did often encounter roadblocks to capital at financial institutions. However, these barriers were almost always associated with internal management shortcomings. In particular, a large proportion of firms that had a hard time raising external capital also lacked the know-how to pursue different financing options.

Problems in securing different types of capital were often related. For example, firms that were unable to get capital because of roadblocks at financial institutions were also unable to raise enough resources to pursue various financing options.

Bankruptcy costs the economy billions of dollars a year

In 1993, about 3,700 incorporated businesses failed in Canada, with liabilities totalling $4.1 billion. Much of the money forfeited is owed to Canadian banks, the largest creditors for Canadian businesses. However, Canadians also felt the costs of bankruptcy through the loss of jobs. Half of bankrupt firms had between one and nine employees when they failed.

Between 1992 and 1996, corporate bankruptcies made up only 28% of all business bankruptcies, but they accounted for about 65% of total business liabilities arising from bankruptcy. The average corporate bankruptcy had liabilities of $1.3 million, five times the average of $260,000 for non-corporate business bankruptcies.

Note to readers

This release is based on the publication Failing concerns: business bankruptcy in Canada*. The publication examines the causes and symptoms of corporate bankruptcy and looks at measures that might have prevented a bankruptcy from occurring.*

Data came from the Survey on the Characteristics of Bankrupt Firms, conducted from March 1 to August 31, 1996, covering 1,085 companies. It was done with the co-operation of bankruptcy trustees who responded in detail to a questionnaire on the characteristics of bankrupt firms. Trustees are assigned by law to each case of bankruptcy. They are closely involved with the failing firm and, as part of their duties, develop detailed knowledge of the situations facing these firms, as well as their management style.

This study is the third in a series on small- and medium-sized enterprises conducted by the Micro-economics and Analysis Division. The first, Strategies for success*, was released on February 18, 1994. The second,* Successful entrants: Creating the capacity for survival and growth*, was released on May 8, 1997.*

The number of bankruptcies nearly doubled from 1985 to 1995, while the business population increased only by half. The result has been an increase in the incidence of bankruptcies from 10 failures per 1,000 businesses in 1980 to 14 per 1,000 in 1995.

The services sector recorded the highest increase in business bankruptcies in the early 1990s. At greatest risk of failure were firms in finance, insurance, and real estate, as well as other service industries such as business services and accommodation, food, and beverages. In 1995, firms in these industries represented the largest number of bankruptcies — 4,610, or 35% of the total.

Small, young firms are most at risk, primarily because their management has not yet built up the experience and knowledge necessary to run a business. Over half the new firms that fail in the first 10 years of life do so within the first 2 years of operation. More than half of younger firms, those less than 5 years old, had a senior manager who had worked as a manager for less than 5 years.

Why firms fail: Internal and external factors

Many firms in Canada went bankrupt because of external factors beyond their control. The top three external causes of bankruptcy were uniform for all industries — an economic downturn, increases in competition and the loss of key customers.

On the other hand, bankruptcies also occurred because of internal problems, rooted primarily in management shortcomings. The three internal shortcomings most frequently cited involved general management skills, financial planning and management, and marketing capabilities.

The impact on firms when these internal and external factors combined varied with the age of the company. Young firms (those that incorporated in the 1990s) were more likely to report that internal factors played a greater role in bankruptcy than external factors. Older firms reported exactly the opposite.

In the early stages of a firm's life, internal shortcomings are so prevalent that most bankruptcies occurred because of them. As firms mature, many of these internal competencies improve. At this stage, external shocks begin to play a larger role.

Just over half of firms went bankrupt because they did not develop the necessary internal competence to survive an external shock. Bad management skills were generally less of a factor in firms that failed for external reasons. However, managerial shortcomings — lack of vision, initiative, flexibility and adapatability — compounded external factors.

This study showed that a strong financial structure is critical for all firms, whether for building internal competence or protecting against external shocks. Another critical factor is marketing. Poor pricing policy was the most important marketing problem for firms that failed due to internal reasons.

Averting bankruptcy: What can be done

As it turns out, the causes of bankruptcy involved such fundamental problems that the majority of bankrupt firms would not have been capable of surviving even if management had taken appropriate actions when the firm began to run into serious difficulties. However, some firms might have been given new life if certain preventative measures had been taken somewhat earlier. First, it is important to raise additional equity. About half of firms might have been able to avoid bankruptcy had they raised additional capital earlier. An ounce of prevention is indeed worth a pound of cure.

One way to evaluate the financial side of a firm is to look at the extent to which others value it; in particular, how willing they are to invest in the firm. Consequently, the importance of equity to survival becomes self-evident. Managers must be trained in general and financial management so they can demonstrate the worth of the firm by attracting investors.

Second, about 4 in every 10 firms might have avoided failure had they turned to an outside consultant for help in offsetting managerial shortcomings. For about one-third of firms, trustees suggested renegotiating with debt holders or suppliers.

The publication *Failing concerns: Business bankruptcy in Canada* (61-525-XPE, $30) is now available. See *How to order publications*.

For further information on this release, contact John R. Baldwin (613-951-8588), Director, Micro-economics Analysis Division. ■

OTHER RELEASES

RRSP room (contribution limit)

1997

Canadians have more room than ever before for contributions to registered retirement savings plans in the 1997 tax year.

Just over 17 million taxfilers are entitled to contribute $203.6 billion (current dollars) to RRSPs, up 14% from the previous tax year, according to data from 1996 personal income tax returns. This amount is twice as high as it was in 1993, when these data first became available.

About one-quarter of this amount, or $48.3 billion, represents new RRSP room for the 1997 tax year. New room for this year equals 18% of 1996 earned income, minus the pension adjustment. The pension adjustment represents the value of the benefits earned in 1996 under a registered pension plan or a deferred profit-sharing plan.

About three-quarters of the total RRSP room represents unused room. Many taxfilers eligible to make RRSP contributions do not use their entire contribution limit each year. This unused room is carried forward. The unused room, and consequently the total room, have increased consistently since 1993, but always at a slower pace. This is partly attributable to increasingly larger amounts being contributed to RRSPs.

The maximum new room amount for 1997 is $13,500, unchanged from 1996. In general, changes to this maximum have little effect on the overall growth of new RRSP room because very few Canadians are entitled to such an amount. Since 1993, almost half of the taxfilers with new room were entitled to an annual amount of $2,500 or less, and only 3% were entitled $10,000 or more.

The 15% advance in new room in the last five years is mainly attributable to a drop in registered pension plan participation and an increase in the employment income of Canadians between 1992 and 1996.

The number of people entitled to new room in 1997 increased in all provinces and territories, except in Newfoundland where their number decreased for a fourth consecutive year.

Note: Total RRSP room represents the "deduction limit" that Canadians can claim with respect to contributions made to these plans. It does not include income eligible for transfers such as retiring allowances and severance pay that may be rolled over into RRSPs. The sum of the "deduction limit" and rollovers represents the maximum amount that can be claimed as a deduction on line 208 of the personal income tax return.

For more information on *RRSP room* (17C0011), contact Client Services (613-951-9720; fax 613-951-4745; Internet: *saadinfo@statcan.ca*), Small Area and Administrative Data Division. ■

Steel primary forms

October 1997

Steel primary forms production for October totalled 1 310 542 metric tonnes, an increase of 1.2% from 1 295 517 metric tonnes the previous year.

Year-to-date production reached 12 858 502 metric tonnes, up 7.3% from 11 980 664 metric tonnes a year earlier.

Available on CANSIM: matrix 58 (level 2, series 3).

The October 1997 issue of *Primary iron and steel* (41-001-XPB, $7/$62) will be available shortly. See *How to order publications*.

For further information on this release, contact Andy Shinnan (613-951-3515; Internet: *shinand@statcan.ca*), Manufacturing, Construction and Energy Division. ■

Egg production

October 1997 (preliminary)

Egg production estimates for October 1997 are now available.

Available on CANSIM: matrices 1145, 1146 and 5689-5691.

To order *Production and stocks of eggs and poultry* ($110/year), contact Julie Gordon (613-951-5039), Agriculture Division.

For further information on this release, contact Sandy Gielfeldt (613-951-2505), Livestock and Animal Products Section, Agriculture Division. ■

PUBLICATIONS RELEASED

Gross domestic product by industry, September 1997
Catalogue number 15-001-XPB
(Canada: $15/$145; outside Canada: US$15/US$145).

Failing concerns: Business bankruptcy in Canada
Catalogue number 61-525-XPE
(Canada: $30; outside Canada: US$30).

Profile of Canadian farm operators, 1996
Catalogue number 93-359-XPB
(Canada: $39; outside Canada: US$39).

All prices exclude sales tax.

How to order publications

Simplify your data search with the *Statistics Canada Catalogue* (11-204-XPE, $16; outside Canada: US$16).

Its keyword index will guide you to statistics on Canada's social and economic activity.

Order publications by phone:

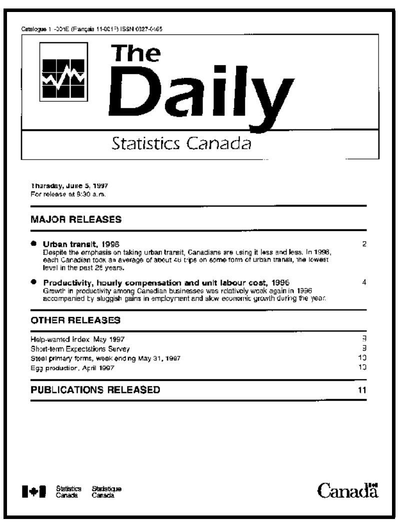
Please refer to the • Title • Catalogue number • Volume number • Issue number • Your VISA or MasterCard number.

In Canada and the United States call:	**1-800-267-6677**
From other countries call:	**1-613-951-7277**
To fax your order:	**1-800-889-9734**
Address changes or account inquiries:	**1-800-700-1033**
Internet:	**order@statcan.ca**

To order a publication by mail write: Statistics Canada, Circulation Management, Operations and Integration Division, Ottawa, K1A 0T6.

Include a cheque or money order payable to **Receiver General of Canada/Publications**. Canadian customers add 7% GST and applicable PST.

Authorized agents and bookstores also carry Statistics Canada's catalogued publications.


Catalogue 11-001E (Français 11-001F) ISSN 0827-0465

The Daily

Statistics Canada

Thursday, June 5, 1997
For release at 8:30 a.m.

MAJOR RELEASES

- **Urban transit, 1996** — 2
  Despite the emphasis on taking urban transit, Canadians are using it less and less. In 1996, each Canadian took an average of about 46 trips on some form of urban transit, the lowest level in the past 25 years.
- **Productivity, hourly compensation and unit labour cost, 1996** — 4
  Growth in productivity among Canadian businesses was relatively weak again in 1996 accompanied by sluggish gains in employment and slow economic growth during the year.

OTHER RELEASES

Help-wanted Index, May 1997	9
Short-term Expectations Survey	9
Steel primary forms, week ending May 31, 1997	10
Egg production, April 1997	10

PUBLICATIONS RELEASED 11

Statistics Canada Statistique Canada

Canada

Statistics Canada's official release bulletin

Catalogue 11-001E.

Published each working day by the Communications Division, Statistics Canada, 10-H, R.H. Coats Bldg., Tunney's Pasture, Ottawa, Ontario K1A 0T6.

To access *The Daily* on the Internet, visit our site at *http://www.statcan.ca*. To receive *The Daily* each morning by E-mail, send an E-mail message to listproc@statcan.ca. Leave the subject line blank. In the body of the message, type "subscribe daily firstname lastname".

Editor: Duncan Currie (613-951-1103, currdun@statcan.ca)
Head of Official Release: Chantal Prévost (613-951-1088, prevcha@statcan.ca)