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SMALL BUSINESS FINANCING  
AND  
NON-BANK FINANCIAL INSTITUTIONS

Volume II: Appendices

A Study for the Small Business Financing Review

by

**Facsym Research Limited**

James V. Poapst  
Project Director

**SMALL BUSINESS FINANCING  
AND  
NON-BANK FINANCIAL INSTITUTIONS**

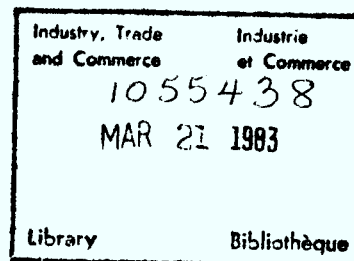
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<b>Appendix A</b>	<b>234</b>
<b>INDUSTRY—SALES DELINEATION OF SMALL FIRMS</b>	<b>234</b>
Introduction	234
The Distribution Function	235
The Data	236
Parameter Estimation Procedure	237
Results	237
Conclusions	240
Technical Addendum	241
Part I: The Derivation of the Pareto Distribution	242
Part II: Review of Some Relevant Statistical Facts	250
1 <b>PARETO DISTRIBUTION PARAMETERS BASED ON ALL DATA</b>	<b>255</b>
2 <b>DATA ABOVE \$100,000 ONLY</b>	<b>261</b>
<b>Appendix B</b>	<b>267</b>
1 <b>SURVEY OF SMALL BUSINESS MANAGERS</b>	<b>267</b>
2 <b>DMI SUBSCRIPTIONS SERVICES FORM</b>	<b>287</b>
Size Criteria by Industry	289
3 <b>DUN AND BRADSTREET UNIVERSE OF FIRMS IN THE 10</b>	
<b>CENTRES BY SALES RANGE AND 2-DIGIT SIC (U.S.)</b>	<b>292</b>
4 <b>SMALL BUSINESS FINANCING SURVEY:</b>	
<b>INTERVIEWER'S INSTRUCTIONS</b>	<b>295</b>
5 <b>TABULATION OF RESPONSES TO THE QUESTIONNAIRE</b>	
<b>BASED ON 292 RETURNS</b>	<b>304</b>
6 <b>FOLLOW-UP SURVEY</b>	<b>327</b>
Addendum: Non Response Survey	336
<b>Appendix C</b>	<b>344</b>
1 <b>FINANCIAL AND TRUST COMPANY INTERVIEW</b>	
<b>SURVEY QUESTIONNAIRES</b>	
(i) Senior Executives	344
(ii) Loan officers	353
2 <b>FORM FOR SURVEY OF FINANCIAL AND TRUST COMPANY</b>	
<b>FINANCING FILES</b>	<b>359</b>

<b>Appendix D</b>	<b>364</b>
<b>CREDIT UNION INTERVIEW SURVEY QUESTIONNAIRES</b>	<b>364</b>
(i) Credit Union Central and Cooperatives' Senior Executives	364
(ii) Credit Union Central and Cooperatives' Loan Officers	369
(iii) Credit Union and Caisses Populaires' Loan Officers	373
<b>Appendix E</b>	<b>380</b>
<b>QUESTIONNAIRE FOR FOREIGN BANK AFFILIATES</b>	<b>380</b>
<b>Appendix F</b>	<b>388</b>
<b>SYNOPSIS OF SELECTED PROVISIONS OF ACTS AND REGULATIONS AFFECTING PARTICIPATION BY FINANCIAL CORPORATIONS, TRUST COMPANIES, AND CREDIT UNIONS IN SMALL BUSINESS FINANCING</b>	<b>388</b>



## Appendix A

### AN INDUSTRY-SALES DELINEATION OF SMALL FIRMS

by

George H. Haines, Jr. and Michael K. Berkowitz\*

#### Introduction

This appendix examines the size distribution of firms in Canada at the three-digit SIC level for the year 1977. The central goal of the appendix is to develop a definition of small that will have analytical relevance and that will be useful in later phases of this study.

The size distribution of business firms is generally recognized as highly skewed. (D'Cruz et al. (3) demonstrate the skewness of the size distribution of Canadian firms in their study). Previous empirical studies have shown that the upper tail of the size distribution of firms resembles a Pareto distribution (Ijiri and Simon (4,6,7), Naslund (10), and references therein). More than one argument has been presented to justify this empirical finding. Indeed, the theoretical expositions in Simon and Bonini (12) and Naslund (10) are quite different. The argument used in this appendix, which rests on the point of view of Simon and Bonini (12), may be briefly summarized as follows:

Assume there is a specific size of firm in any particular industry which serves to delimit the nature of the cost function in the industry. Firms above this specific size have constant unit costs and are designated as large. Firms below this specific size have increasing unit costs (or decreasing if their size is thought of as increasing) and are designated small. Individual firms in any industry will grow at varying rates, depending upon such factors as new investment, exogenous alterations in demand for their products, availability of skilled labour, availability of managerial talent, and so on.

These factors, in turn, may depend upon the efficiency of the individual firm, exclusive access to particular factors of production, or even the availability of funds for investment. All these forces together generate a probability distribution for the size of firms in an industry in terms of sales.

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\* The authors wish to acknowledge helpful discussions with J. D'Cruz, A. Paull, J. Dooley, J.V. Poapst, M.J. Gordon, and J.H. Haines. J.H. Haines provided programming assistance. B. de Leon provided the data file. None of the above is responsible, of course, for any errors.

Two fundamental assumptions underlie the theoretical probability distribution used to explain the skew distributions observed in the data. The first is the law of proportionate effect (Gibrat's Law) which assumes that the underlying stochastic process is the same for all firms. The second is that new firms are being born in the smallest-size category at a relatively constant rate.

While Gibrat's Law, on the one hand, is consistent with constant returns to scale for large firms and yields the skewness observed in previous empirical studies of the size distribution of firms, constant returns is not implied by neoclassical economic theory. To the contrary, decreasing returns to scale has always been an essential condition to the existence of a competitive equilibrium within economic theory. That is, it has traditionally been assumed the average cost curve for a firm falls and then rises as the quantity of goods the firm produces and sells increases. The facts, however, do little to satisfy the requirements of theory. Walter (13), for example, carried out an extensive survey of empirical estimates of cost functions and found that one-half showed constant or increasing returns to scale. Only six of the remaining 17 were estimates of long-run cost curves, and only one of these, even under the most liberal interpretation of the data, exhibited the U-shaped curve described by standard economic theory. Moreover, only one-quarter of the short-run cost curve estimates showed signs of increasing marginal cost. Hence, while the theory of competitive equilibrium is not compatible with constant costs, it appears that Gibrat's Law is consistent with empirical cost estimates.

### **The Distribution Function**

It is shown in Part I of the technical addendum to this appendix that the Yule distribution results from the two assumptions stated in the Introduction, and that, therefore, the Pareto distribution is the appropriate probability distribution function for the size distribution of large firms. Two additional reasons may be put forward to support the use of the Pareto distribution. First, as is discussed in the technical addendum, it can be shown that the Pareto distribution is a useful approximation to the precise distribution that results under a wide variety of underlying conditions. Thus, it is a reasonable and useful approximation even when the precise conditions which lead to it being exactly correct are not quite met. Second, because there exists a specific underlying explanation for the Pareto distribution being an appropriate probability distribution for the size distribution of large firms, the estimated parameters are interpretable in economic terms.

The first parameter of the Pareto distribution, which may be designated  $k$ , is a measure of the specific size of firm in sales above which firms in that specific industry have constant unit costs. Thus,  $k$  defines a large firm. The stochastic growth model described in the technical addendum makes no reference to any feature of the cost curve other than that costs are constant above the estimated minimum point. Nothing in the model requires the firms in the industry to have the same cost curves.

The other parameter, rho, of the Pareto distribution also has a simple interpretation. If H is the net growth of sales for all firms in an industry during a specified time period, and k is that part of that net growth attributable to new firms, then rho is equal to one divided by one minus the ratio of net growth attributable to new firms in the time period to net growth of sales for all firms in the industry. Thus, for example, if k/H is 0.10 (i.e., new firms account for ten percent of the growth in sales in the industry), then rho is 1.11 ( $1.11 = 1/(1 - .1)$ ). As the contribution of new firms to total growth approaches zero, rho approaches one. Rho, therefore, is a measure of the effect of new firms in the large firm sector of the industry in increasing industry sales, as well as a qualitative measure of whether any sale increase caused by firms at all is occurring in the large firm sector of the industry. The more rho exceeds one, the greater the impact of new firms in increasing industry sales. A new firm in this context may be one that was previously small and grew during the period to a sales level exceeding k, or it may be a firm that previously did not exist in the industry and entered the industry in the sales of k or more. Empirical estimates of rho that are one or below imply no entry of new firms into the large size category of the industry of any significance in increasing industry sales.

### The Data

The basic data files used were those described in D'Cruz (2) based on 1977 data. The basic measure of size used was sales. The T1 and T2 (combined) file is the data employed in this study.

Though sales data were used in this study, occasionally in studies of size distributions of firms, assets and/or number of employees are used. Number of employees data were not available for this study, but asset data were. In fact, of course, D'Cruz et. al. (3) use both assets and sales in their profile of small business. The decision to use only sales data in this study rested on three reasons. First, there was a desire to allow potential integration of the results of this work with those of later work in this study. It was not felt total asset data would be available in either the demand side study or the loan file study. Secondly, there was a desire to not simply "do the same thing twice". A topic of this importance, it was felt, should be looked at from a variety of viewpoints. Third, it was felt that the available asset data had some serious difficulties. Canadian income tax laws, rules, and regulations, require companies to systematically undervalue assets; for example, the FIFO inventory value rule. These problems are exacerbated during a period of inflation. This undervaluation problem becomes more serious because its extent may vary greatly from company to company and industry to industry. This causes the asset data to, in effect, include a random element. In fact, the principal components technique used in the D'Cruz et. al. study (3) may be viewed as a variance reduction technique which could possibly have been employed because of the nature of the asset data. The "noise" in the asset data would have been a much more substantial problem in this study than in the procedure employed by D'Cruz et. al. (3).



## Parameter Estimation Procedure

The parameter estimation procedure employed in this appendix was least squares. Details of this procedure are presented in Part II of the technical addendum. The strength of this procedure is that it gives analytical estimates of the two parameters of the Pareto distribution which are consistent. It is for this reason that it was adopted. It should be noted that with grouped data, such as that used in this study, this procedure may produce estimates of  $\rho$  that are biased downward.

Maximum likelihood estimates were also prepared. This procedure, however, does not in practice provide an analytical estimate of  $k$ . This is because the likelihood function value is a function of the number of observations with the property that as the number of observations decreases the value of the likelihood function increases. But as  $k$  increases, the number of observations also decreases. It was necessary, therefore, to employ the least squares estimate of  $k$  in order to produce a maximum likelihood estimate of  $k$ . An additional problem is that the maximum likelihood estimate of  $\rho$  is biased upward, sometimes apparently quite substantially. These difficulties made the value of the results from applying the maximum likelihood estimation procedure quite dubious. A copy of these results, however, is available from the authors on request.

## Results

Detailed results for the three digit SBFR code industries are presented at the end of this appendix in Tables A-1 and A-2. The symbol  $A$  is used to represent the numerical estimate of the parameter  $\rho$ ; the symbol  $K$  the numerical estimate of the parameter  $k$  in these tables.

Table A-1 presents the results of the least squares parameter estimation procedure using all the data.

Table A-2 presents the least squares estimates of  $\rho$  and  $k$  assuming a minimum firm size of \$100,000 in yearly sales.

Table A-0 of this appendix summarizes these results for the 14 Major Industries identified in the D'Cruz et. al. (3) study of independent Canadian Owned Incorporated and Unincorporated Firms. It is designed to allow ready comparison with Table 8 in D'Cruz et. al. (3). These two tables are not the same thing. Table (8) in D'Cruz et. al. (3) shows that the size distribution of Independent Canadian Owned Incorporated and Unincorporated Firms is skewed. Table 3-1 accepts this result as valid, and uses the universe of all firms to estimate the parameters in the Pareto distribution. Thus, these two tables should be viewed as complementary.

Table A-2 in Appendix I was prepared because of the argument and results in D'Cruz (2) suggesting the existence of micro-firms in Canada. It is also true that the tradition in empirical work employing the Pareto distribution has been to exclude all data from firms below some minimum size (see 5, 6, 7, 11, and 13 for example), so that preparation of Table A-2 is in the spirit of this tradition.

The argument (D'Cruz (2)) is that a class of micro-firms (defined here as firms with sales below \$100,000 per annum) exists within Canada. These firms, typified by the "ma-and-pa" cornerstore, have not been growing in size, are not interested in growth, and are often run on a part time basis by the owner.

Table A-0

**LEAST SQUARES ESTIMATES OF PARETO DISTRIBUTION  
PARAMETERS FOR 14 MAJOR INDUSTRIES  
IDENTIFIED IN THE STUDY OF CANADIAN OWNED FIRMS**

Industry	MINIMUM SALES GREATER THAN ZERO/YEAR		MINIMUM SALES OF \$100,000/YEAR	
	A (Estimate of the effect of entry of new large firms in increasing industry sales)	K (Estimate of the specific size of firm in annual 1977 sales dollars above which firms in this industry have constant unit costs)	A (Estimate of the effect of entry of new large firms in increasing industry sales)	K (Estimate of the specific size of firm in annual 1977 sales dollars above which firms in this industry have constant unit costs)
Special Trade Contractors	.7642	9620.	1.143	103397.
Hotels, motels, campgrounds etc.	.8263	18600.	1.2990	102786.
Food stores	.8213	30718.	1.2280	105845.
Building construction	.6851	27193.	.9972	120147.
Gasoline service stations	.8275	42586.	1.6480	150529.
Wholesalers, N.E.S.	.6553	12756.	.9007	107131.
Miscellaneous services to business management	.7666	9774.	1.1460	101226.
Retail stores, N.E.S.	.7718	15675.	1.2690	107895.
Motor vehicle repair shops	.9118	17763.	1.6340	103668.
Hardware, household furniture and appliances stores	.7604	22913.	1.2910	119775.
Other truck transport	.8419	8583.	.9774	87548.
Motor vehicle dealers	.5003	54358.	.7374	235551.
General merchandise stores	.7114	28704.	.8957	92354.
Wholesalers of machinery and equipment, N.E.S.	.5691	30959.	.8346	155089.

A second comment is that these results pertain to 1977/8, while the data in parts of this study which were conducted later particularly the demand side survey, are 1980 or 1981 data. How are four years of inflation and possible technological change in production procedures to be dealt with, particularly as the rate of inflation and technological change in these years seems to have varied from industry to industry? The answer in this appendix is to leave such adjustments to the reader. The results presented pertain to 1977/8.

## Conclusions

1. The argument that a class of micro-firms (typified by sales for the firm below \$100,000 per annum) exists within Canada was not disconfirmed. K values in Table A-1 are generally low, and A values in most industries are below 1. The idea that micro firms exist and are generally not interested in growth cannot be rejected by the results in Table A-1.

2. Table A-1 results, therefore, serve to delineate the micro-firm class of Canadian firms.

3. Table A-2, therefore, is the table that should be looked at for the definition of small.

4. A critical sales value which discriminates between small and large firms in 1977/8 was determined for every industry examined except fishery services and placer gold mines. This is the value of K in Table A-2. This is a preliminary estimate which may be biased downward. These values are probably most usefully thought of as giving information in an ordinal or ranking sense about the critical sales value, although it is also probably unlikely that the critical sales value would be less than the indicated value.

5. The results indicate that this critical sales value is industry specific. What is small in one industry may be large in another industry. For example, in the mining industry (goldquartz, uranium, miscellaneous metal, asbestos, gypsum) sales of over \$1 million annually are generally required before a firm could be considered large. Many Canadian industries are such that sales between \$100,000 annually and \$250,000 annually would be regarded as characteristic of small firms, with sales above \$250,000 annually representative of large firms. Among the exceptions, aside from the mining industries, are the tobacco products manufactureres, the carpet industry, the pulp and paper industry, and the pipeline transport industry where approximately \$500,000 in annual sales comprise the cutoff. A few industries have quite low values of the cutoff. For example, eleven of the fourteen industries listed in Table A-0 of this appendix have cutoff values below \$121,000 in annual sales.

6. Yet another result of the study is a measure of the degree to which small firms are growing so as to be classified as large firms or new large firms appear. The estimates of A in mining and manufacturing in Canada are generally less than 1.0 in Table A-2, indicating that new firms in the industry had no effect on sales growth in 1977/8. The only exceptions to this generalization were the fur goods industry, the coffin and casket industry, machine shops, boatbuilding and repair, and stone products manufacturers.

7. Half of the fourteen industries in Table A-0 of this appendix have A values greater than one. This is a much higher percentage of A values greater than one than is found in Table A-2. Canadian entrepreneurial activities are being channelled into a very narrow set of industries. However the data is not sufficient to indicate barriers to entry exist.

8. The single year nature of the data prevent any analysis of the stability of A over time.

9. A final conclusion about these results may be directed toward their use in the formation of policy. While it may seem beneficial, at first glance, to encourage the entry of small (or new) firms into the large firm sector so as to increase competition, it must be recognized that new firms will not enter if it appears unprofitable to do so. Even if demand and costs justify entry, there is no logical need for the new firms be privately owned. Further, some industries (for example, air transport, pipeline transport, telephone systems to some extent, electric power, all of which have A values clearly less than 1.0 in Table A-2) have been specifically allowed to operate in Canada with limited competition. These industries have been regulated so as to not take full advantage of their monopoly position, yet to still produce their product(s) at sufficient scale so as to realize economies in production that might be absent with greater competition in the industry. Thus, it may be concluded that these results do not support, per se, the proposition that a universal policy directed toward increasing entry of private firms would necessarily be in the interests of the Canadian public.

#### **Technical Addendum**

The purpose of this addendum is, in Part I, to review precisely the detailed statement of the stochastic process and to show that it yields, as an implication, the Yule distribution. This implies, as is also shown, that the Pareto distribution is the appropriate probability distribution function for the size distribution of large firms.

Part II reviews some statistical facts about the Yule and Pareto distributions, as well as the possible procedures for estimation of parameters. Thus, this technical addendum is designed to present the precise mathematical and theoretical underpinning of the work presented in Chapter 3, and the specific numerical results presented in the Appendix.



## Part I: The Derivation of the Pareto Distribution

The process generating the size distribution of firms starts with a few elements all of a unit size in order to initialize the population. At each epoch, the aggregate size of the population (the sum of the sizes of the elements of the population, i.e. industry sales) is increased by one unit or dollop (Simon and Ijiri, 7, p.66). Let  $k$  be stated in terms of dollop of sales. For convenience, as an example,  $k$  could be thought of as measured in dollars of sales. Designate by  $f(i,k)$  the number of firms with  $i$  dollops of sales after  $k$  dollops of sales have accrued to the industry.

**Assumption One.** The probability that the  $(k+1)$ st dollop of sales accrues to a firm that already has  $i$  dollops of sales is proportional to  $i f(i,k)$ .

**Comment.** Assumption one may be thought of as a particular version of Gibrat's Law.

**Assumption Two.** There is a constant probability,  $\alpha$ , that the  $(k+1)$ st dollop of sales will accrue to a new firm - a firm that has not received any of the first  $k$  dollops.

Assumptions one and two describe a stochastic process, in which the probability that a particular dollop of sales accrues to a particular firm depends on what dollops of sales have been previously accrued. If this process correctly describes the allocation of dollops of sales, then the size distribution of firms cannot be regarded as a random sample drawn (according to a uniform probability distribution) from a population with a prior distribution.

It follows from assumption one that

$$(1) \quad E\{f(i,k+1)\} - f(i,k) = K(k)\{(i-1) f(i-1,k) - i f(i,k)\} \\ (i = 2, \dots, k+1).$$

If the  $(k+1)$ st dollop of sales is one that accrues to a firm which has  $(i-1)$  dollops already,  $f(i,k+1)$  will be increased over  $f(i,k)$ , and the probability of this by assumption one, is proportional to  $(i-1) f(i-1,k)$ ; if the  $(k+1)$ st dollop of sales is one that accrues to a firm which has  $i$  dollops already,  $f(i,k+1)$  will be decreased, and the probability of this by assumption one, is proportional to  $i f(i,k)$ .

Similarly, from assumptions one and two,

$$(2) \quad E\{f(1,k+1)\} - f(1,k) = \alpha - K(k) f(1,k) \quad (0 < \alpha < 1).$$

Since the concern is with a steady-state distribution (see equation (8) below, for the definition of steady-state), the expected values in (1) and (2) may be replaced by actual frequencies. Therefore,

$$(3) \quad f(i,k+1) - f(i,k) = K(k) \{(i-1) f(i-1,k) - i f(i,k)\} \\ (i = 2, \dots, k+1),$$

$$(4) \quad f(1,k+1) - f(1,k) = \alpha - K(k) f(1,k),$$

may be written in place of (1) and (2).

The next step is to evaluate the factor of proportionality  $K(k)$ . Since, according to assumption one,  $K(k) i f(i,k)$  is the probability that the  $(k+1)$ st dollop of sales accrues to a firm with  $i$  dollops already,

$$(5) \quad \sum_{i=1}^k K(k) i f(i,k) = K(k) \sum_{i=1}^k i f(i,k) = 1 - \alpha.$$

$\sum_{i=1}^k i f(i,k)$  is total industry sales after  $k$  dollops of sales have accrued to the industry, so that

$$(6) \quad \sum_{i=1}^k i f(i,k) = k.$$

(5) and (6) imply that  $K(k)k = 1 - \alpha$ , or

$$(7) \quad K(k) = \frac{1-\alpha}{k}.$$

Now the difference equations (3) and (4) may be solved. To do this a steady-state distribution is assumed:

**Assumption Three.** All the frequencies grow proportionately with  $k$ , and hence maintain the same relative size.

**Comment.** Stated in the form of an algebraic relationship, assumption three may be written:

$$(8) \quad \frac{f(i, k+1)}{f(i, k)} = \frac{k+1}{k} \quad \text{for all } i \text{ and } k.$$

It follows from (8) that:

$$\frac{f(i, k+1)}{f(i, k)} = \frac{f(i-1, k+1)}{f(i-1, k)} = \frac{k+1}{k},$$

so that

$$(9) \quad \frac{f(i, k)}{f(i-1, k)} = \frac{f(i, k+1)}{f(i-1, k+1)} = \beta(i).$$

$\beta(i)$  is not a function of  $k$ . Hence, the relative frequencies,  $f^*(i)$ , are independent of  $k$ . Therefore,

$$(10) \quad \beta(i) = \frac{f^*(i)}{f^*(i-1)}$$

Substituting (7), (8), and (9) into (3), and solving for  $\beta(i)$ :

$$\begin{aligned} f(i, k+1) - f(i, k) &= K(k) [(i-1) f(i-1, k) - i f(i, k)] \\ f(i, k+1) - f(i, k) &= \left( \frac{1-\alpha}{k} \right) [(i-1) f(i-1, k) - i f(i, k)] \\ f(i, k+1) &= \left( \frac{1-\alpha}{k} \right) (i-1) f(i-1, k) + f(i, k) \left[ 1 - \left( \frac{1-\alpha}{k} \right) i \right]; \end{aligned}$$

the above equation implies, dividing both sides by  $f(i-1, k)$ , that

$$\frac{f(i, k+1)}{f(i-1, k)} = \left( \frac{1-\alpha}{k} \right) (i-1) + \frac{f(i, k)}{f(i-1, k)} \left[ 1 - \left( \frac{1-\alpha}{k} \right) i \right].$$

or

$$\frac{f(i, k+1)}{f(i-1, k)} = \left( \frac{1-\alpha}{k} \right) (i-1) + \beta(i) \left[ 1 - \left( \frac{1-\alpha}{k} \right) i \right].$$

Multiplying both sides by  $1 = f(i,k)/f(i,k)$ ,

$$\frac{f(i,k+1)}{f(i,k)} \cdot \frac{f(i,k)}{f(i-1,k)} = \left( \frac{1-\alpha}{k} \right) (i-1) + \beta(i) \left[ 1 - \left( \frac{1-\alpha}{k} \right) i \right],$$

or

$$\left( \frac{k+1}{k} \right) \beta(i) = \left( \frac{1-\alpha}{k} \right) (i-1) + \beta(i) \left[ 1 - \left( \frac{1-\alpha}{k} \right) i \right].$$

Collecting the terms involving  $\beta(i)$  on the left,

$$\beta(i) \left[ \frac{k+1}{k} - 1 + \left( \frac{1-\alpha}{k} \right) i \right] = \left( \frac{1-\alpha}{k} \right) (i-1);$$

multiplying both sides by  $k$ ,

$$\beta(i) [k + 1 - k + (1-\alpha) i] = (1-\alpha)(i-1);$$

simplifying,

$$\beta(i) [1 + (1-\alpha) i] = (1-\alpha)(i-1),$$

so that

$$(11) \quad \beta(i) = \frac{(1-\alpha)(i-1)}{1 + (1-\alpha)i} = \frac{f^*(i)}{f^*(i-1)} \quad \text{from (9)}.$$

Define  $\rho$  as :

$$(12) \quad \rho = (1/1-\alpha) \quad (1 < \rho < \infty).$$

$f^*(i)$  may be written as:

$$f^*(i) = \frac{f^*(i)}{f^*(i-1)} \cdot \frac{f^*(i-1)}{f^*(i-2)} \cdot \frac{f^*(i-2)}{f^*(i-3)} \cdot \dots \cdot \frac{f^*(2)}{f^*(1)} f^*(1) ,$$

or

$$f^*(i) = \beta(i) \cdot \beta(i-1) \cdot \beta(i-2) \cdot \dots \cdot \beta(2) f^*(1) .$$

It follows from (11) and (12) that

$$f^*(i) = \left[ \frac{(1-\alpha)(i-1)}{1 + (1-\alpha)i} \right] \left[ \frac{(1-\alpha)(i-2)}{1+(1-\alpha)(i-1)} \right] \left[ \frac{(1-\alpha)(i-3)}{1+(1-\alpha)(i-2)} \right] \cdot \dots \cdot \left[ \frac{(1-\alpha)1}{1+(1-\alpha)2} \right] f^*(1) ,$$

or

$$f^*(i) = \left[ \frac{(i-1)/\rho}{1+(i/\rho)} \right] \left[ \frac{(i-2)/\rho}{1+((i-1)/\rho)} \right] \left[ \frac{(i-3)/\rho}{1+((i-2)/\rho)} \right] \cdot \dots \cdot \left[ \frac{1/\rho}{1+(2/\rho)} \right] f^*(1) ,$$

which may be written:

$$f^*(i) = \left[ \frac{(i-1)}{1+\rho} \right] \left[ \frac{(i-2)}{i+\rho-1} \right] \left[ \frac{(i-3)}{i+\rho-2} \right] \dots \left[ \frac{1}{\rho+2} \right] f^*(1) :$$

$$f^*(i) = \frac{(i-1)(i-2)(i-3) \dots (1)}{(i+\rho)(i+\rho-1)(i+\rho-2) \dots (\rho+2)} f^*(1) .$$



This implies since  $\Gamma(n+1) = n!$  that:

$$f^*(i) = \frac{\Gamma(i) \Gamma(\rho+2)}{\Gamma(i+\rho+1)},$$

because  $\Gamma(\rho+2) = (\rho+1)! = (\rho+1)e! = (\rho+1) \Gamma(\rho+1)$ , hence

$$f^*(i) = \frac{\Gamma(i)(\rho+1) \Gamma(\rho+1)}{\Gamma(i+\rho+1)} f^*(1).$$

By definition,  $B(i, \rho+1)$ , the Beta function of  $i, \rho+1$  is:

$$B(i, \rho+1) = \Gamma(i) \Gamma(\rho+1) / \Gamma(i+\rho+1) \quad (0 < i; 0 < \rho < \infty).$$

so that:

$$(13) \quad f^*(i) = (\rho+1) B(i, \rho+1) f^*(1) \quad (i = 2, \dots, k).$$

That (13) is in fact a solution of (3) may be verified by direct substitution. It may be observed that (13) looks like the Yule distribution (Yule, 14; Simon, 11), the Yule distribution having the equation:

$$(14) \quad f(S) = K B(S, \rho+1).$$

However, it remains to be shown that (13) is a proper distribution function. For (13) to be a proper distribution function,  $\sum_{i=1}^k i B(i, \rho+1)$  must converge as  $k \rightarrow \infty$ .

It is true that  $\sum_{i=1}^{\infty} i^{-a}$  converges for every  $a > 1$ . It is also true that

$$\text{as } i \rightarrow \infty, \quad \Gamma(i) / \Gamma(i+k) \sim i^{-k}.$$

Hence,

$$\sum_{i=1}^{\infty} iB(i, \rho+1) \sim i \cdot i^{-(\rho+1)} = i^{-\rho},$$

and, by the usual ratio comparison test,  $\sum_{i=1}^{\infty} iB(i, \rho+1)$  converges for  $\rho > 1$ , as required. Therefore, (13) is in fact the Yule distribution.

As  $i \rightarrow \infty$ ,

$$f^*(i) \rightarrow Mi^{-(\rho+1)},$$

and

$$(15) \quad f^1(i) = Mi^{-(\rho+1)}$$

is the Pareto Distribution.

The economic interpretation of the limiting process is that for firms above the minimum size, i.e., large firms, units costs are constant. The size distribution of large firms is Pareto; the size distribution of all firms, small and large, is Yule.

It is also shown by Simon (11) that the Yule distribution, and therefore the Pareto for large firms, is a good approximation for the size distribution of firms in situations where no new sales occur once  $k$  reaches an upper value  $k_0$ , as well as the situation where  $\alpha$  slowly decreases as  $k$  increases. The first case is simply a "no growth" case. The situation where  $\alpha$  slowly decreases as  $k$  increases corresponds to a situation of entry into an industry slowing as the industry becomes mature. Finally, Ijiri and Simon (7) show that if firms in various industries are distributed according to the Pareto distribution with slopes (on a log-log plot) close to 1 in each case, the composite distribution for all industries will be a Pareto distribution with slope close to one. This implies that the arbitrariness of industry classification and the heterogeneity of firms within industries may not create the same difficulties in applying the present theory as in applying classical cost theory to explain size distributions. Ijiri and Simon (6,7) do in fact also show that mergers and acquisitions and autocorrelation in growth cause some departure from

the Pareto distribution. However, they also show that despite such departures, the Pareto distribution remains an excellent first approximation (6,7).

The log-normal distribution has also been at times applied to fitting size distribution phenomena. What distinguishes the Yule distribution from the log-normal is not the first assumption - the law of proportionate effect - but the second, the assumption of a constant "birth rate" for new firms. If a random walk of the firms already in existence at the beginning of the time interval under consideration is assumed, with zero mean change in size, the log-normal results. The Yule distribution results from the assumption that new firms may enter. They need not be new born in a legal sense, merely small. That is, some lower size limit may be assumed. Any firm which reaches or exceeds this lower limit is "new born". Of course, in such a situation, the equilibrium distribution will hold only for firms above the minimum.

## Part II: Review of Some Relevant Statistical Facts

### Yule Distribution

$$(1) \quad \Pr[x=h] = A_{\rho} B(h, \rho+1), \quad (h=1, 2, \dots)$$

where

$$A_{\rho} = \left[ \sum_{h=1}^{\infty} B(h, \rho+1) \right]^{-1}$$

$B(\alpha, \beta)$  = beta function

$$= \int_0^1 x^{\alpha-1} (1-x)^{\beta-1} dx, \quad (\alpha > 0; \beta > 0)$$

is known as the Yule distribution (Johnson and Kotz (5, pp.244-247)). For large values of  $h$ ,  $B(h, \rho+1)$  is approximately proportional to  $h^{-(\rho+1)}$ .

The ratio

$$\Pr[x=1]/\Pr[x=2] = B(1, \rho+1)/B(2, \rho+1) = \rho+2$$

is equal to 3 if  $\rho=1$ . If  $\rho=1$ ,  $A_1=1$ , and the distribution is defined by:

$$(2) \quad \Pr[x=h] = [h(h+1)]^{-1} \quad (h=1, 2, \dots)$$

The expected value is infinite.

If  $\rho$  is a positive integer, then  $A_{\rho}=\rho$  and

$$(3) \quad \Pr[x=h] = \rho (\rho!) (h^{[\rho+1]})^{-1}.$$

The  $s^{\text{th}}$ /ascending factorial moment of  $x$  is:

$$\begin{aligned}
 (4) \quad \mu_{[s]} &= \rho \cdot (\rho!) \sum_{h=1}^{\infty} [(h+s)^{[\rho-s+1]}]^{-1} \\
 &= \frac{\rho \cdot (\rho!)}{(\rho-s) \cdot (s+1)^{[\rho-s]}} \quad s < \rho-1
 \end{aligned}$$

For  $s \geq \rho-1$  the corresponding moment is infinite.

It may be shown that as  $h \rightarrow \infty$ , (1) becomes a Pareto distribution:

$$(5) \quad P(x) = \frac{ak^a}{x^{a+1}} \quad (a > 0; \quad x \geq k > 0)$$

where, of course,  $a \equiv \rho$ .  $k$  would be the firm size which would distinguish a small firm from a large firm. If the possible values of  $x$  are assumed to still be discrete, then (5) is a form of the Zeta distribution, and  $k$  would appear in the right-hand side where  $x$  does. It may be seen that if  $a$  is not greater than 2, the variance of  $x$  does not exist. Since in this application it may be expected that  $a$  will not be greater than 2, it is important to consider how dispersion may be appropriately measured at the same time as the question of parameter estimation is addressed. The cumulative distribution function of  $x$  which corresponds to (5) is:

$$(6) \quad F(x) = 1 - \left(\frac{k}{x}\right)^a \quad k > 0, \quad a > 0; \quad x \geq k.$$

### Parameter Estimation

Suppose that  $x_1, x_2, \dots, x_n$  are random variables distributed as in (6).

### Least Squares Estimators

Re-arranging (6) and taking logarithms of both sides,

$$(7) \quad \log [1-F(x)] = a \log k - a \log x.$$



The parameters  $a$  and  $k$  may be estimated by least squares from sample estimates of  $F(x)$  using as dependent variable, the logarithm of 1 minus the cumulative distribution of the sample. The least squares estimator of  $a$  is then

$$(8) \quad \bar{a} = \frac{-n \sum_{i=1}^n \log x_i \log[1-F(x_i)] + \left(\sum_{i=1}^n \log x_i\right) \left(\sum_{i=1}^n \log [1-F(x_i)]\right)}{n \sum_{i=1}^n (\log x_i)^2 - \left(\sum_{i=1}^n \log x_i\right)^2}$$

The corresponding least squares estimator of  $k$  may be obtained by substituting into (7) the arithmetic mean value of the dependent and independent variable along with the estimator  $\bar{a}$  and solving for  $k$ . Estimators of the parameters obtained by least squares methods have been shown to be consistent. Estimation from Moments and from Quantiles is also possible, and the estimators obtained by these methods are also consistent.

### Maximum Likelihood Estimators

The likelihood function for a sample  $(x_1, \dots, x_n)$  from a Pareto distribution is

$$(9) \quad L = \prod_{j=1}^n \frac{a k^a}{x_j^{a+1}}.$$

Taking logarithms of both sides, differentiating partially with respect to parameter  $a$  and setting the result to zero yields the relation:

$$(10) \quad \hat{a} = n \left[ \sum_{j=1}^n \log (x_j / \hat{k}) \right]^{-1}$$

between the maximum likelihood estimators of  $\hat{a}$ ,  $\hat{k}$ , of  $a$ ,  $k$  respectively.

A second equation (corresponding to  $\partial \log L / \partial k = 0$ ) cannot be obtained in the usual way because  $\log L$  is unbounded with respect to  $k$ . Since  $k$  is a lower bound on the random variables  $x$ ,  $\log L$  must be maximized subject to the constraint:

$$(11) \quad \hat{k} \leq \min_i x_i$$

By inspection, the value of  $\hat{k}$  which maximizes (9) subject to (11) is:

$$(12) \quad \hat{k} = \min_i x_i$$

It has been shown that  $\hat{a}$  and  $\hat{k}$  are consistent estimators.

$\hat{a}$  may be expressed as a function of  $k$  and the geometric mean by substituting  $G = (\prod_{i=1}^n x_i)^{1/n}$  into (10) to yield

$$(13) \quad \hat{a} = [\log (G/\hat{k})]^{-1}$$

where  $\hat{k} = \min (x_1, \dots, x_n) = x_1$ .

The sample geometric mean  $G$  is a sufficient statistic for  $a$  when  $k$  is known, and  $\hat{k}$ , in the sense of (12), is a sufficient statistic for  $k$  when  $a$  is known.

The probability density function of  $\hat{a}$  is:

$$(14) \quad P(x) = \frac{a^{n-1} n^{n-1}}{\Gamma(n-1)x^n} e^{\left(\frac{-na}{x}\right)}, \quad x > 0$$

so that  $2na/\hat{a}$  is distributed as  $\chi^2$  with  $2n$  degrees of freedom. The expected value of  $\hat{a}$  is  $na/(n-a)$ ; the variance is  $n^2(n-2)^{-2}(n-3)^{-1}a^2$  and the distribution of  $\hat{a}$  tends to normality as  $n$  tends to infinity. A  $100(1-\alpha)\%$  confidence limit for  $a$  is given by the limits

$$\hat{a} \chi_{2n, \alpha/2}^2 (2n)^{-1}, \quad \hat{a} \chi_{2n, 1-\alpha/2}^2 (2n)^{-1}.$$

A suggested measure of dispersion is the "geometric standard deviation":

$$(15) \quad \lambda = \exp \{ \sqrt{E[(\log x - \log \gamma)^2]} \}$$

where  $\gamma = k \exp(1/a)$ , and the maximum likelihood estimator of  $\gamma$  is  $G$ , the sample geometric mean. Thus the geometric standard deviation of  $x$  is  $\gamma/k$ , and the Pareto distribution can be completely specified by the location parameter  $\gamma$  and the scale parameter  $\lambda$ . The maximum likelihood estimator of  $\lambda$  is  $G/x_1$ , where  $x_1$  is the minimum  $x$  value.

Since the Pareto distribution is not reproductive under application of Bayes' Law, Bayesian estimation of parameters is not an attractive possibility. If it were possible at all, it would require complicated numerical analysis.

# Appendix A-1

## PARETO DISTRIBUTION PARAMETERS BASED ON ALL DATA

SBFR	1960 SIC	1970 SIC	DESCRIPTION	LEAST SQUARES ESTIMATE OF A	LEAST SQUARES ESTIMATE OF K
031	031	031	LOGGING	0.7084	8,108.
039	039	039	FORESTRY SERVICES	0.6550	8,013.
045	045	045	FISHERY SERVICES	1.1630	8,679.
051	051	051	PLACER GOLD MINES	*	*
052	052	052	GOLD QUARTZ MINES	0.5967	1,504,019.
057	057	057	URANIUM MINES	0.7935	8,072,855.
058	058	058	IRON MINES	0.1814	23,619.
	053-056				
059	059	059	MISC. METAL MINES	0.3119	162,126.
061	061	061	COAL MINES	0.2832	32,629.
064	063-066	064	CRUDE PETROLEUM & NAT. GAS	0.4366	14,730.
071	071	071	ASBESTOS MINES	0.2015	84,486.
073	073	073	GYP SUM MINES	0.9095	1,633,333.
	072	072			
079	077		MISC. NON-METAL MINES	0.4455	41,958.
	079	079			
083	083	083	STONE QUARRIES	0.5645	31,386.
087	087	087	SAND PITS OR QUARRIES	0.6363	24,133.
096	096	096	CONTRACT DRILLING FOR PETRO.	0.5681	23,278.
098	098	098	OTHER CONTRACT DRILLING	0.4378	14,109.
099	099	099	MISC. SERV. INCIDENTAL TO MINING	0.6192	12,141.
101	101	101	MEAT & POULTRY PROD. IND.	0.4273	39,815.
	103				
102	111	102	FISH PRODUCTS INDUSTRY	0.5213	73,908.
103	112	103	FRUIT & VEG. PROCESSING IND.	0.4030	73,520.
104	105	104	DAIRY PRODUCTS INDUSTRY	0.4200	58,867.
	107				
105	124	105	FLOUR & BREAKFAST CEREAL IND.	0.4955	55,673.
	128				
106	123	106	FOOD INDUSTRY	0.5271	66,118.
107	128	107	BAKERY PRODUCTS INDUSTRY	0.7750	23,950.
	129				
108	131 133	130	MISC. FOOD INDUSTRIES	0.4734	12,402.
	135 139	108			
109	141 143	109	BEVERAGE INDUSTRIES	0.4230	56,047.
	145 147				
152	151	152	LEAF TOBACCO PROCESSORS	0.3108	229,900.
153	153	153	TOBACCO PRODUCTS MFR's	0.2933	384,079.

\*Insufficient data to estimate parameters

162	161 163	162	RUBBER PROD. IND.	0.4131	97,081.
	169				
165	385	165	PLASTICS FABRIC. IND. N.E.S.	0.5177	40,235.
172	172	172	LEATHER TANNERIES	0.5158	57,491.
174	174	174	SHOE FACTORIES	0.4343	27,041.
175	175	175	LEATHER GLOVE FACTORIES	0.3997	40,123.
179	179	179	LUGGAGE, HANDBAG & SMALL LEATHER GOODS MFR's.	0.5483	21,232.
181	183	181	COTTON, YARN AND CLOTH MILLS	0.3886	44,774.
182	193	182	WOOL, YARN AND CLOTH MILLS	0.3610	147,453.
	197				
183	201	183	MAN-MADE FIBRE YARN & CLOTH MILLS	0.4066	175,733.
184	213	184	CORDAGE AND TWINE	0.4919	51,511.
185	211	185	FELT & FIBRE PROCESSING MILLS	0.6818	144,707.
	215				
186	216	186	CARPET, MAT & RUG INDUSTRY	0.2943	95,136.
187	221	187	CANVAS PROD., COTTON & JUTE BAGS	0.5906	23,379.
	223				
189	212 214	188	MISC. TEXTILE INDUSTRIES	0.5345	25,182.
	218 229	189			
231	231	231	HOSIERY MILLS	0.4166	38,986.
239	239	239	KNITTING MILLS (except hosiery)	0.5509	99,058.
243	243	243	MEN'S CLOTHING INDUSTRIES	0.5341	59,620.
244	244	244	WOMEN'S CLOTHING INDUSTRIES	0.5717	45,880.
245	245	245	CHILDREN'S CLOTHING IND.	0.5478	54,487.
246	246	246	FUR GOODS INDUSTRY	0.6326	22,379.
248	248	248	FOUNDATION GARMENT IND.	0.3129	52,642.
249	247	249	MISC. CLOTHING IND.	0.6094	34,638.
	249				
252	252	252	veneer & PLYWOOD MILLS	0.4391	185,813.
254	251	251	WOOD MILLS & MILLWORK IND.	0.4972	20,690.
	254	254			
256	256	256	WOODEN BOX FACTORIES	0.5620	20,190.
258	258	258	COFFIN & CASKET IND.	0.6640	90,812.
259	259	259	MISC. WOOD INDUSTRIES.	0.5991	12,393.
261	261	261	HOUSEHOLD FURNITURE MFR's	0.6624	7,997.
264	264	264	OFFICE FURNITURE MFR's	0.4724	44,036.
266	266	266	MISC. FURNITURE & FIXTURE MFR's	0.5268	29,022.
268	268	268	ELECTRIC LAMP & SHADE MFR's	0.7480	104,004.
271		271	PULP & PAPER MILLS	0.2625	160,335.
273	273	273	PAPER BOX & BAG MFR's	0.5111	110,681.
274	274	274	MISC. PAPER CONVERTERS	0.4382	65,732.
286	286	286	COMMERCIAL PRINTING	0.6751	24,406.
	287	287			
288	288	288	PUBLISHING ONLY	0.5978	17,905.
289	289	289	PUBLISHING & PRINTING	0.5428	20767.
291	291	291	IRON & STEEL MILLS	0.4112	39,106.
292	292	292	STEEL PIPE & TUBE MILLS	0.3800	167,895.



294	294	294	IRON FOUNDRIES	0.4617	32,974.
295	295	295	SMELTING & REFINING	0.2767	27,470.
296	296	296	ALUMINIUM ROLLING, CASTING, & EXTRUDING	0.5651	61,957.
297	297	297	COPPER & COPPER ALLOY ROLLING, CASTING AND EXTRUDING	0.4856	40,208.
298	298	298	METAL ROLLING, CASTING, & EXTRUDING, N.E.S.	0.3782	32,762.
301	301	301	BOILER & PLATEWORKS	0.3738	97,549.
302	302	302	FABRIC. STRUCTURAL METAL IND.	0.4754	64,961.
304	304	304	METAL STAMPING, PRESSING & COATING INDUSTRY	0.5400	41,318.
305	305	305	WIRE & WIRE PROD. MFR's	0.4741	45,384.
307	307	307	HEATING EQUIPMENT MFR's	0.4055	28,822.
308	308	308	MACHINE SHOPS	0.7006	18,979.
309	309	309	MISC. METAL FABRIC. IND.	0.5174	41,731.
311	311	311	AGRICULTURAL IMPLEMENT IND.	0.4820	42,628.
315	315	315	MISC. MACHINERY & EQUIP. MFR's	0.4961	44,617.
316	316	316	COMMERCIAL REFRIGERATION & AIR CONDITIONING EQUIPMENT	0.3977	91,889.
321	321	321	AIRCRAFT & AIRCRAFT PARTS MFR's	0.3895	9,537.
323	323	323	MOTOR VEHICLE MFR's	0.2277	41,198.
324	324	324	TRUCK BODY & TRAILER MFR's	0.4671	39,258.
325	325	325	MOTOR VEH. PARTS & ACCESS. MFR's	0.4065	74,037.
326	326	326	RAILROAD ROLLING STOCK IND.	0.2426	27,266.
327	327	327	SHIPBUILDING & REPAIR	0.4194	43,041.
328	328	328	BOATBUILDING & REPAIR	0.6483	10,472.
329	329	329	MISC. VEH. MFR's	0.4845	39,657.
331	331	331	MFR's OF SMALL ELECTRICAL APPLIANCES	0.3621	23,934.
332	332	332	MAJOR APPLIANCES	0.2663	14,988.
334	334	334	HOUSEHOLD RADIO & TELEVISION RECEIVERS MFR's	0.2538	59,088.
335	335	335	COMMUNICATIONS EQUIP. MFR's	0.3818	7,262.
336	336	336	MFR's OF ELECTRICAL IND. EQUIP.	0.4258	52,136.
338	338	338	MFR's OF ELECTRIC WIRE & CABLE	0.2694	92,379.
339	318	318	MISC. ELEC. PROD. OFFICE & STORE EQUIP. MFR's	0.4870	34,610.
351	351	351	CLAY PRODUCTS MFR's	0.4908	13,455.
352	341	352	CEMENT MFR's	0.3037	53,009.
353	353	353	STONE PRODUCTS MFR's	0.7126	12,432.
354	347	354	CONCRETE PRODUCTS MFR's	0.5784	33,876.
355	348	355	READY-MIX CONCRETE MFR's	0.5657	71,385.
356	303	303	MFR's OF GLASS PRODUCTS OR MISC. METAL PRODUCTS	0.5541	29,715.
357	357	357	ABRASIVE MFR's	0.3657	42,079.
358	343	358	LIME MFR's	0.4178	129,834.
359	345/352/354 355 339	359	MISC. NON-METALLIC MINERAL PROD. IND.	0.3521	64,956.

365	365	365	PETROLEUM REFINERIES	0.0823	4,863.
369	369	369	MISC. PETROL. & COAL PROD. IND.	0.4500	78,262.
373	373	373	MFR's OF PLASTICS	0.4425	138,432.
			& SYNTHETIC RESINS		
374	374	374	MFR's OF PHARMACEUTICALS	0.4098	83,324.
			& MEDICINES		
375	375	375	PAINT & VARNISH MFR's	0.4452	75,839.
376	376	376	MFR's OF SOAP &	0.3665	14,556.
			CLEANSING COMPOUNDS		
377	377	377	MFR's OF TOILET PREPARATIONS	0.3637	35,393.
378	372	372	IND. CHEM. & MIXED FERTILIZERS	0.4047	47,367.
	378 371	378			
379	379	379	MISC. CHEM. IND.	0.4559	65,273.
391	391	391	SCIENTIFIC & PROF. EQUIP.	0.5787	14,078.
392	392	392	JEWELLERY & SILVERWARE IND.	0.5781	15,397.
393	393	393	SPORTING GOODS & TOY IND.	0.4469	18,814.
397	397	397	SIGNS & DISPLAY IND.	0.7275	19,332.
	219				
	272	272			
	306				
399	399	399	MISC. MFRing IND. N.E.S.	0.5824	22,275.
	383				
	384	306			
	395				
404	404	404	BUILDING CONSTRUCTION	0.6851	27,193.
406	406	406	HIGHWAY, BRIDGE & STREET CONSTR.	0.5447	37,385.
409	409	400	OTHER CONSTRUCTION	0.7472	10,104.
		409			
421	421	421	SPECIAL TRADE CONTRACTORS	0.7642	9,620.
501	501	501	AIR TRANSPORT	0.5139	14,992.
502	502	502	SERV. INCIDENTAL TO AIR TRANS.	0.6541	9,363.
503	503	503	RAILWAY TRANSPORT	0.3610	76,485.
504	504	504	WATER TRANSPORT	0.5062	10,122.
505	505	505	SERV. INCIDENTAL TO WATER TRANS.	0.4449	14,379.
507	507	507	OTHER TRUCK TRANSPORT	0.8419	8,538.
508	508	508	BUS TRANS. INTERURBAN & RURAL	0.6085	10,988.
509	509	509	URBAN TRANSIT SYSTEMS	0.4900	10,643.
512	512	512	TAXICAB OPERATIONS	0.7821	749.1
515	515	515	PIPELINE TRANSPORT	0.3122	86,756.
516	516	516	HIGHWAY & BRIDGE MAINTENANCE	0.8203	7,617.
517	517	517	MISC. SERVICES INCIDENTAL	0.6791	14,315
			TO TRANSPORTATION		
519	519	500	OTHER TRANSPORTATION	0.8708	6,632.
		519			
524	524	524	GRAIN ELEVATORS	0.3230	29,234.
527	527	506	OTHER STORAGE & WAREHOUSING	0.6607	13,652.
		527			
543	543	543	RADIO & TELEVISION BR.CASTING	0.5275	39,211.
544	544	544	TELEPHONE SYSTEMS	0.3607	120,138.

545	545	545	TELEGRAPH & CABLE SYSTEMS	0.7427	39,221.
548	548	548	POST OFFICES	1.0680	3,306.
572	572	572	ELECTRIC POWER	0.2543	554.
574	574	574	GAS DISTRIBUTION	0.3389	27,154.
576	576	576	WATER SYSTEMS	0.7690	3,290.
579	579	579	OTHER UTILITIES	0.7044	10,444.
	606				
608	608	606	WHOLESALEERS OF PETROL.		
	693	608	PROD., COAL AND COKE	0.6193	26,844.
611	611	611	WHOLESALEERS OF PAPER & PAPER PROD.	0.4567	34,103.
612	613	612	WHOLESALEERS OF GEN. MERCHANDISE	0.6346	2,767.
614	614	614	WHOLESALEERS OF FOOD	0.5081	38,007.
615	615	615	WHOLESALEERS OF TOBACCO PROD.	0.3753	66,072.
616	616	616	WHOLESALEERS OF DRUGS & TOILET PREPARATIONS	0.5120	29,466.
617	617	617	WHOLESALEERS OF APPAREL & DRY GOODS	0.5420	33,097.
618	618	618	WHOLESALEERS OF HOUSEHOLD FURN. & FURNISHINGS	0.5331	33,837.
619	619	619	WHOLESALEERS OF MOTOR VEHICLES & ACCESSORIES	0.5769	55,548.
621	621	621	WHOLESALEERS OF ELECT. MACH., EQUIP. AND SUPPLIES	0.5236	30,983.
622	622	622	WHOLESALEERS OF FARM MACH. & EQUIPMENT	0.5877	47,700.
623	623	623	WHOLESALEERS OF MACHINERY & EQUIPMENT, N.E.S.	0.5691	30,959.
624	624	624	WHOLESALEERS OF HARDWARE, PLUMB. & HEATING EQUIPMENT	0.5563	37,241.
625	625	625	WHOLESALEERS OF METAL & METAL PRODUCTS, N.E.S.	0.4674	40,274.
626	626	626	WHOLESALEERS OF LUMBER & BUILDING MATERIALS	0.5465	37,239.
627	627	627	WHOLESALEERS OF SCRAP & WASTE MATERIALS	0.6237	14,774.
	602	602			
629	604	600	WHOLESALEERS, N.E.S.	0.6553	12,756.
	629	629			
631	631	631	FOOD STORES	0.8213	30,748.
642	647 649	642	GENERAL MERCHANDISE STORES	0.7114	28,704.
652	652	652	TIRE, BATTERY & ACCESSORY STORES	0.6762	32,467.
654	654	654	GASOLINE SERVICE STATIONS	0.8275	42,586.
656	656	656	MOTOR VEHICLE DEALERS	0.5003	54,358.
658	658	658	MOTOR VEHICLE REPAIR SHOPS	0.9118	17,763.
663	663	663	SHOE STORES	0.8634	24,794.
665	242 665	665	MEN'S CLOTHING STORES & CUSTOM TAILOR SHOPS	0.7529	20,070.

667	667	667	WOMEN'S CLOTHING STORES	0.8229	24,190.
669	669	669	CLOTHING & DRY GOODS STORES N.E.S.	0.7634	17,937.
676	673	673	HARDWARE, HOUSEHOLD FURN.	0.7604	22,913.
	676	676	& APPLIANCE STORES		
678	678	678	RADIO, TELEVISION AND ELEC. APPLIANCE REPAIR STORES	0.9734	7,595.
681	681	681	DRUG STORES	0.8168	59,899.
691	691	691	BOOK & STATIONERY STORES	0.7328	16,557.
692	692	692	FLORISTS' SHOPS	0.9827	18,295.
694	694	694	JEWELLERY STORES	0.8962	22,444.
695	695	695	WATCH & JEWELLERY REPAIR STORES	1.0380	5,339.
696	696	696	LIQUOR, WINE & BEER STORES	0.8773	14,998.
697	697	697	TOBACCONISTS	1.0170	36,824.
699	699	699	RETAIL STORES, N.E.S.	0.7718	15,675.
843	843	843	BOWLING ALLEYS & BILLIARD PARLORS	0.9579	10,359.
	851	841 842			
849	849	844 845	MISC. AMUSEMENT & RECREATION SERVICES	0.7470	8,653.
		849			
862	862	862	ADVERTISING SERVICES	0.6459	7,455.
	866	851 853			
869		866 867	MISC. SERV. TO BUSINESS MGT.	0.7666	9,774.
	869	869			
871	871	871	SHOE REPAIR SHOPS	1.5280	5,800.
872	872	872	BARBER & BEAUTY SHOPS	1.2350	7,005.
874	874	874	LAUNDRIES, CLEANERS & (EXCEPT SELF-SERVICE)	0.8226	12,529.
	877/878	877	MISC. PERSONAL SERVICES	0.8226	12,529.
879	879	879			
881	875	881	HOTELS, MOTELS, CAMPGROUNDS, RESTAURANTS, CATERERS, TAVERNS	0.8263	18,600.
		884 886			
883	876	883	LODGING HOUSES & RESIDENTIAL CLUBS	0.9943	9,279.
893	893	893	PHOTOGRAPHIC SERVICES, N.E.S.	0.8094	8,965.
896	894	896	BLACKSMITHING & WELDING, SHOPS, N.E.S.	0.8339	5,959.
897	896	897	MISC. REPAIR SHOPS	0.8085	6,407.
898	897	898	SERV. TO BUILDINGS & DWELLINGS	0.8273	4,259.
		894 895	MISC. SERVICES, N.E.S.	0.6571	7,878.
899	899	899			

# Appendix A-2

## DATA ABOVE \$100,000 ONLY

SBFR	SIC	SIC	DESCRIPTION	LEAST SQUARES ESTIMATE OF A	LEAST SQUARES ESTIMATE OF K
031	031	031	LOGGING	0.7084	8108.
039	039	039	FORESTRY SERVICES	0.6550	8013.
045	045	045	FISHERY SERVICES	0.1630	8679.
051	051	051	PLACER GOLD MINES	*	*
052	052	052	GOLD QUARTZ MINES	0.5967	1,504,019.
057	057	057	URANIUM MINES	0.7935	8,072,855.
058	058	058	IRON MINES	0.1814	23,619.
059	059	059	MISC. METAL MINES	0.3119	162,126.
061	061	061	COAL MINES	0.2832	32,629.
064	063-066	064	CRUDE PETROLEUM & NAT. GAS	0.4366	14,730.
071	071	071	ASBESTOS MINES	0.2015	84,486.
073	073	073	GYPSUM MINES	0.9095	1,633,333.
079	077		MISC. NON-METAL MINES	0.4455	41,958.
083	083	083	STONE QUARRIES	0.5645	31,386.
087	087	087	SAND PITS OR QUARRIES	0.6363	24,133.
096	096	096	CONTRACT DRILLING FOR PETRO.	0.5681	23,278.
098	098	098	OTHER CONTRACT DRILLING	0.9378	14,109.
099	099	099	MISC. SERV. INCIDENTAL TO MINING	0.6192	12,141.
101	101	101	MEAT & POULTRY PROD. IND.	0.4273	39,815.
102	111	102	FISH PRODUCTS INDUSTRY	0.5213	73,908.
103	112	103	FRUIT & VEG. PROCESSING IND.	0.4030	73,520.
104			DAIRY PRODUCTS INDUSTRY	0.4200	58,867.
105			FLOUR & BREAKFAST CEREAL IND.	0.4955	55,673.
106	123	106	FOOD INDUSTRY	0.5271	66,118.
107		107	BAKERY PRODUCTS INDUSTRY	0.7750	23,950.
108	133		MISC. FOOD INDUSTRIES	0.9734	12,402.
109			BEVERAGE INDUSTRIES	0.4230	56,047.
152	151	152	LEAF TOBACCO PROCESSORS	0.3108	229,900.
153	153	153	TOBACCO PRODUCTS MFR's	0.2933	384,079.
162		162	RUBBER PROD. IND.	0.4131	97,081.
165	385	165	PLASTICS FABRIC. IND. N.E.S.	0.5177	40235.
172	172	172	LEATHER TANNERIES	0.5158	57,491.
174	174	174	SHOE FACTORIES	0.4343	27,041.
175	175	175	LEATHER GLOVE FACTORIES	0.3997	40,123.
179	179	179	LUGGAGE, HANDBAG & SMALL LEATHER GOODS MFR's.	0.5483	21,232.
181	183	181	COTTON, YARN AND CLOTH MILLS	0.3886	44,774.
182		182	WOOL, YARN AND CLOTH MILLS	0.3610	147,453.
183	201	183	MAN-MADE FIBRE YARN & CLOTH MILLS	0.4066	175,733.

184	213	184	CORDAGE AND TWINE	0.4919	51,511.
185		185	FELT & FIBRE PROCESSING MILLS	0.6818	144,707.
186	216	186	CARPET, MAT & RUG INDUSTRY	0.2943	95,136.
187		187	CANVAS PROD., COTTON & JUTE BAGS	0.5906	23,379.
189	214		MISC. TEXTILE INDUSTRIES	0.5345	25,182.
231	231	231	HOSIERY MILLS	0.4166	38,986.
239	239	239	KNITTING MILLS (except hosiery)	0.5509	99,058.
243	243	243	MEN'S CLOTHING INDUSTRIES	0.5341	59,620.
244	244	244	WOMEN'S CLOTHING INDUSTRIES	0.5717	45,880.
245	245	245	CHILDREN'S CLOTHING IND.	0.5478	54,487.
246	246	246	FUR GOODS INDUSTRY	0.6326	22,379.
248	248	248	FOUNDATION GARMENT IND.	0.3129	52,642.
249		249	MISC. CLOTHING IND.	0.6094	34,638.
252	252	252	VENEER & PLYWOOD MILLS	0.4391	185,813.
254			WOOD MILLS & MILLWORK IND.	0.4972	20,690.
256	256	256	WOODEN BOX FACTORIES	0.5620	20,190.
258	258	258	COFFIN & CASKET IND.	0.6640	90,812.
259	259	259	MISC. WOOD INDUSTRIES.	0.5991	12,393.
261	261	261	HOUSEHOLD FURNITURE MFR's	0.6624	7,997.
264	264	264	OFFICE FURNITURE MFR's	0.4724	44,036.
266	266	266	MISC. FURNITURE & FIXTURE MFR's	0.5268	29,022.
268	268	268	ELECTRIC LAMP & SHADE MFR's	0.7480	104,004.
271		271	PULP & PAPER MILLS	0.2625	160,335.
273	273	273	PAPER BOX & BAG MFR's	0.5111	110,681.
274	274	274	MISC. PAPER CONVERTERS	0.4382.	65,732.
286	286	286	COMMERCIAL PRINTING	0.6751	24,406.
288	288	288	PUBLISHING ONLY	0.5978	17,905.
289	289	289	PUBLISHING & PRINTING	0.5428	20767.
291	291	291	IRON & STEEL MILLS	0.4112	39,106.
292	292	292	STEEL PIPE & TUBE MILLS	0.3800	167,895.
294	294	294	IRON FOUNDRIES	0.4617	32,974.
295	295	295	SMELTING & REFINING	0.2767	27,470.
296	296	296	ALUMINIUM ROLLING, CASTING, & EXTRUDING	0.5651	61,957.
297	297	297	COPPER & COPPER ALLOY ROLLING, CASTING AND EXTRUDING	0.4856	40,208.
298	298	298	METAL ROLLING, CASTING, & EXTRUDING, N.E.S.	0.3782	32,762.
301	301	301	BOILER & PLATEWORKS	0.3738	97,549.
302	302	302	FABRIC. STRUCTURAL METAL IND.	0.4754	64,961.
304	304	304	METAL STAMPING, PRESSING & COATING INDUSTRY	0.5400	41,318.
305	305	305	WIRE & WIRE PROD. MFR's	0.4741	45,384.
307	307	307	HEATING EQUIPMENT MFR's	0.4055	28,822.
308	308	308	MACHINE SHOPS	0.7006	18,979.
309	309	309	MISC. METAL FABRIC. IND.	0.5174	41,731.
311	311	311	AGRICULTURAL IMPLEMENT IND.	0.4820	42,628.
315	315	315	MISC. MACHINERY & EQUIP. MFR's	0.4961	44,617.



316	316	316	COMMERCIAL REFRIGERATION & AIR CONDITIONING EQUIPMENT	0.3977	91,889.
321	321	321	AIRCRAFT & AIRCRAFT PARTS MFR's	0.3895	9,537.
323	323	323	MOTOR VEHICLE MFR's	0.2277	41,198.
324	324	324	TRUCK BODY & TRAILER MFR's	0.4671	39,258.
325	325	325	MOTOR VEH. PARTS & ACCESS. MFR's	0.4065	74,037.
326	326	326	RAILROAD ROLLING STOCK IND.	0.2426	27,266.
327	327	327	SHIPBUILDING & REPAIR	0.4149	43,041.
328	328	328	BOATBUILDING & REPAIR	0.6483	10,472.
329	329	329	MISC. VEH. MFR's	0.4845	39,657.
331	331	331	MFR's OF SMALL ELECTRICAL APPLIANCES	0.3621	23,934.
332	332	332	MAJOR APPLIANCES	0.2663	14,988.
334	334	334	HOUSEHOLD RADIO & TELEVISION RECEIVERS MFR's	0.2538	59,088.
335	335	335	COMMUNICATIONS EQUIP. MFR's	0.3818	7,262.
336	336	336	MFR's OF ELECTRICAL IND. EQUIP.	0.4258	52,136.
338	338	338	MFR's OF ELECTRIC WIRE & CABLE	0.2694	92,379.
339	318	318	MISC. ELEC. PROD. OFFICE & STORE EQUIP. MFR's	0.4870	34,610.
351	351	351	CLAY PRODUCTS MFR's	0.4908	13,455.
352	341	352	CEMENT MFR's	0.3037	53,009.
353	353	353	STONE PRODUCTS MFR's	0.7126	12,432.
354	347	354	CONCRETE PRODUCTS MFR's	0.5784	33,876.
355	348	355	READY-MIX CONCRETE MFR's	0.5657	71,385.
356	303	303	MFR's OF GLASS PRODUCTS OR MISC. METAL PRODUCTS	0.5541	29,715.
357	357	357	ABRASIVE MFR's	0.3657	42,079.
358	343	358	LIME MFR's	0.4178	129,834.
359		359	MISC. NON-METALLIC MINERAL PROD. IND.	0.3521	64,956.
365	365	365	PETROLEUM REFINERIES	0.0823	4,863.
369	369	369	MISC. PETROL. & COAL PROD. IND.	0.4500	78,262.
373	373	373	MFR's OF PLASTICS & SYNTHETIC RESINS	0.4425	138,432.
374	374	374	MFR's OF PHARMACEUTICALS & MEDICINES	0.4098	83,324.
375	375	375	PAINT & VARNISH MFR's	0.4452	75,839.
376	376	376	MFR's OF SOAP & CLEANSING COMPOUNDS	0.3665	14,556.
377	377	377	MFR's OF TOILET PREPARATIONS	0.3637	35,393.
378	372	372	IND. CHEM. & MIXED FERTILIZERS	0.4047	47,367.
379	379	379	MISC. CHEM. IND.	0.4559	65,273.
391	391	391	SCIENTIFIC & PROF. EQUIP.	0.5787	14,078.
392	392	392	JEWELLERY & SILVERWARE IND.	0.5781	15,397.
393	393	393	SPORTING GOODS & TOY IND.	0.4469	18,814.
397	397	397	SIGNS & DISPLAY IND.	0.7275	19,332.
399	399	399	MISC. MFRing IND. N.E.S.	0.5824	22,275.
404	404	404	BUILDING CONSTRUCTION	0.6851	27,193.

406	406	406	HIGHWAY, BRIDGE & STREET CONSTR.	0.5447	37,385.
409	409	400	OTHER CONSTRUCTION	0.7472	10,104.
421	421	421	SPECIAL TRADE CONTRACTORS	0.7642	9,620.
501	501	501	AIR TRANSPORT	0.5139	14,992.
502	502	502	SERV. INCIDENTAL TO AIR TRANS.	0.6541	9,363.
503	503	503	RAILWAY TRANSPORT	0.3610	76,485.
504	504	504	WATER TRANSPORT	0.5062	10,122.
505	505	505	SERV. INCIDENTAL TO WATER TRANS.	0.4449	14,379.
507	507	507	OTHER TRUCK TRANSPORT	0.8419	8,538.
508	508	508	BUS TRANS. INTERURBAN & RURAL	0.6085	10,988.
509	509	509	URBAN TRANSIT SYSTEMS	0.4900	10,643.
512	512	512	TAXICAB OPERATIONS	0.7821	749.1
515	515	515	PIPELINE TRANSPORT	0.3122	86,756.
516	516	516	HIGHWAY & BRIDGE MAINTENANCE	0.8203	7,617.
517	517	517	MISC. SERVICES INCIDENTAL TO TRANSPORTATION	0.6791	14,315
519	519		OTHER TRANSPORTATION	0.8708	6,632.
524	524	524	GRAIN ELEVATORS	0.3230	29,234.
527	527		OTHER STORAGE & WAREHOUSING	0.6607	13,652.
543	543	543	RADIO & TELEVISION BR.CASTING	0.5275	39,211.
544	544	544	TELEPHONE SYSTEMS	0.3607	120,138.
545	545	545	TELEGRAPH & CABLE SYSTEMS	0.7427	39,221.
548	548	548	POST OFFICES	1.0680	3,306.
572	572	572	ELECTRIC POWER	0.2543	554.
574	574	574	GAS DISTRIBUTION	0.3389	27,154.
576	576	576	WATER SYSTEMS	0.7690	3,290.
579	579	579	OTHER UTILITIES	0.7044	10,444.
608	608		WHOLESALERS OF PETROL.		
		608	PROD., COAL AND COKE	0.6193	26844.
611	611	611	WHOLESALERS OF PAPER & PAPER PROD.	0.4567	34103.
612	613	612	WHOLESALERS OF GEN. MERCHANDISE	0.6346	2767.
614	614	614	WHOLESALERS OF FOOD	0.5081	38007.
615	615	615	WHOLESALERS OF TOBACCO PROD.	0.3753	66072.
616	616	616	WHOLESALERS OF DRUGS & TOILET PREPARATIONS	0.5120	29466.
617	617	617	WHOLESALERS OF APPAREL & DRY GOODS	0.5420	33097.
618	618	618	WHOLESALERS OF HOUSEHOLD FURN. & FURNISHINGS	0.5331	33837.
619	619	619	WHOLESALERS OF MOTOR VEHICLES & ACCESSORIES	0.5769	55548.
621	621	621	WHOLESALERS OF ELECT. MACH., EQUIP. AND SUPPLIES	0.5236	30983.
622	622	622	WHOLESALERS OF FARM MACH. & EQUIPMENT	0.5877	47700.
623	623	623	WHOLESALERS OF MACHINERY & EQUIPMENT, N.E.S.	0.5691	30959.



624	624	624	WHOLESALERS OF HARDWARE, PLUMB. & HEATING EQUIPMENT	0.5563	37241.
625	625	625	WHOLESALERS OF METAL & METAL PRODUCTS, N.E.S.	0.4674	40274.
626	626	626	WHOLESALERS OF LUMBER & BUILDING MATERIALS	0.5465	37239.
627	627	627	WHOLESALERS OF SCRAP & WASTE MATERIALS	0.6237	14774.
629	604	600	WHOLESALERS, N.E.S.	0.6553	12756.
631	631	631	FOOD STORES	0.8213	30748.
642	649	642	GENERAL MERCHANDISE STORES	0.7114	28704.
652	652	652	TIRE, BATTERY & ACCESSORY STORES	0.6762	32467.
654	654	654	GASOLINE SERVICE STATIONS	0.8275	42586.
656	656	656	MOTOR VEHICLE DEALERS	0.5003	54358.
658	658	658	MOTOR VEHICLE REPAIR SHOPS	0.9118	17763.
663	663	663	SHOE STORES	0.8634	24794.
665	242 665	665	MEN'S CLOTHING STORES & CUSTOM TAILOR SHOPS	0.7529	20070.
667	667	667	WOMEN'S CLOTHING STORES	0.8229	24190.
669	669	669	CLOTHING & DRY GOODS STORES N.E.S.	0.7634	17937.
676	673	673	HARDWARE, HOUSEHOLD FURN. & APPLIANCE STORES	0.7604	22913.
678	678	678	RADIO, TELEVISION AND ELEC. APPLIANCE REPAIR STORES	0.9734	7595.
681	681	681	DRUG STORES	0.8168	59899.
691	691	691	BOOK & STATIONERY STORES	0.7328	16557.
692	692	692	FLORISTS' SHOPS	0.9827	18295.
694	694	694	JEWELLERY STORES	0.8962	22444.
695	695	695	WATCH & JEWELLERY REPAIR STORES	1.0380	5339.
696	696	696	LIQUOR, WINE & BEER STORES	0.8773	14998.
697	697	697	TOBACCONISTS	1.0170	36824.
699	699	699	RETAIL STORES, N.E.S.	0.7718	15675.
843	843	843	BOWLING ALLEYS & BILLIARD PARLORS	0.9579	10359.
849	849	844 845	MISC. AMUSEMENT & RECREATION SERVICES	0.7470	8653.
862	862	862	ADVERTISING SERVICES	0.6459	7455.
869		866 867	MISC. SERV. TO BUSINESS MGT.	0.7666	9774.
871	871	871	SHOE REPAIR SHOPS	1.5280	5800.
872	872	872	BARBER & BEAUTY SHOPS	1.2350	7005.
874	874	874	LAUNDRIES, CLEANERS & (EXCEPT SELF-SERVICE)	0.8226	12529.
879			MISC. PERSONAL SERVICES	0.8226	12529.
881	875	881	HOTELS, MOTELS, CAMPGROUNDS, RESTAURANTS, CATERERS, TAVERNS	0.8263	18600.
883	876	883	LODGING HOUSES & RESIDENTIAL CLUBS	0.9943	9279.

893	893	893	PHOTOGRAPHIC SERVICES, N.E.S.	0.8094	8965.
896	894	896	BLACKSMITHING & WELDING, SHOPS, N.E.S.	0.8339	5959.
897	896	897	MISC. REPAIR SHOPS	0.8085	6407.
898	897	898	SERV. TO BUILDINGS & DWELLINGS	0.8273	4259.
			MISC. SERVICES, N.E.S.	0.6571	7878.

**Appendix B-1**

**SURVEY OF SMALL BUSINESS MANAGERS**

**Interviewer form**

Identification

Confidential information, to be retained by interviewer

**NOTE: Interviewee does not have this page.**

1. Firm name and address of head office.

Telephone:

2. Person interviewed:

Name:

Title:

3. Interviewer:

Name:

I.D. Number:

4. Date of Interview:

**NOTE: Interviewee does not have this page.**

**To be supplied by FACSYM:**

1. First three characters in postal code
2. Title of person interviewed (check)  

☐ President  
☐ Chief Financial Officer (if different from President)  
☐ Other: explain \_\_\_\_\_
3. Date of interview \_\_\_\_\_
4. Information from Dun & Bradstreet printout:
  - a) 3 digit SIC codes \_\_\_\_\_

primary  
secondary
  - b) Sales:            Year \_\_\_\_\_ \$ \_\_\_\_\_
  - c) Net worth      Date \_\_\_\_\_ \$ \_\_\_\_\_
  - d) Number of employees: \_\_\_\_\_
  - e) Start-up year: \_\_\_\_\_
  - f) Credit rating: \_\_\_\_\_

A. THE COMPANY

1. Please describe your major product or service:
2. When was the business started? 19\_\_
3. (a) Which of the following categories best describes where you actively distribute or provide your products or services?

Check one

- |                                     |       |
|-------------------------------------|-------|
| (i) Locally (in town)               | _____ |
| (ii) Provincially                   | _____ |
| (iii) More than one province        | _____ |
| (iv) National (i.e. most provinces) | _____ |

- (b) Do you export products or services to other countries?

Yes \_\_\_\_\_ No \_\_\_\_\_

4. Approximate sales and assets for 1980:  
(Please check category)

	Sales	Assets
Less than \$100,000	_____	_____
\$100,000 - 200,000	_____	_____
\$200,000 - 500,000	_____	_____
\$500,000 - 1 million	_____	_____
\$ 1 million - 10 million	_____	_____
\$10 million - 30 million	_____	_____
Over \$30 million	_____	_____

5. Approximately how fast (on average) have your annual dollar sales been growing over the past three years? (Please check category)

No growth or shrinkage \_\_\_\_\_  
 0 - 10% per year \_\_\_\_\_  
 10 - 20% per year \_\_\_\_\_  
 20 - 30% per year \_\_\_\_\_  
 30 - 50% per year \_\_\_\_\_  
 Over 50% per year \_\_\_\_\_

6. How many full-time employees are there (approximately)? \_\_\_\_\_

7. Financial management:

(a) Does your firm have a full-time (specialized) financial manager?

Yes \_\_\_\_\_ No \_\_\_\_\_

(b) Does the person who manages the firm's finances have any formal accounting or financial training (e.g. C.A., R.I.A., C.G.A.)?

Yes \_\_\_\_\_ No \_\_\_\_\_

B. Current Financial Policy

1. In your considered opinion, how important are the following sources of advice for financial policy making in your firm? (Check each)

		Unimportant		Moderately Important		Extremely Important		
		1	2	3	4	5	6	7
(i)	Internal-financial manager	—	—	—	—	—	—	—
(ii)	Internal-other	—	—	—	—	—	—	—
(iii)	External-banker	—	—	—	—	—	—	—
(iv)	External-public accountant	—	—	—	—	—	—	—
(v)	External-other	—	—	—	—	—	—	—
(vi)	Major shareholder not active in the business	—	—	—	—	—	—	—

2. General information on maturity structure of the firm's financing:

- (a) Do you ever use short-term financing (e.g. bank line of credit) to meet long-term needs (e.g. new equipment, permanent increases in working capital)?

Don't know \_\_\_\_ (Go to 3) No \_\_\_\_ (Go to 3) Yes \_\_\_\_ (Go to b, below)

- (b) Why? (Check if applicable):

- (i) Temporary measure, e.g. waiting for better time to obtain long-term financing \_\_\_\_\_  
 (ii) Because of covenant restrictions imposed by suppliers of capital \_\_\_\_\_  
 (iii) Only type of financing I could get \_\_\_\_\_  
 (iv) Other (specify) \_\_\_\_\_

- (c) Do you find this policy desirable?

Yes \_\_\_\_ No \_\_\_\_

- (d) How often does this occur? Always \_\_\_\_  
 Usually \_\_\_\_  
 Occasionally \_\_\_\_

3. Search procedures for sources of capital:

If your firm needed financing today, what potential sources of supply would you approach?

	Would approach (check)	Rank order in which you would prefer to deal with those checked (ties allowed)
(a) Short-term		
(i) Own shareholders	_____	_____
(ii) Friends, relatives, other than (i).	_____	_____
(iii) Caisse Populaire/Credit Union	_____	_____
(iv) Chartered Bank	_____	_____
(v) Financial Corporation (e.g. Factor, Finance Co.)	_____	_____
(vi) Trust Company	_____	_____
(vii) Other (Specify) _____	_____	_____
(viii) Other (Specify) _____	_____	_____



(b) Long term debt or lease

- |   |       |       |
|---|-------|-------|
| (i) Own shareholders                              | _____ | _____ |
| (ii) Friends, relatives ,other than (i).          | _____ | _____ |
| (iii) Caisse Populaire/Credit Union               | _____ | _____ |
| (iv) Chartered Bank                               | _____ | _____ |
| (v) Financial Corporation (e.g. equipment lessor) | _____ | _____ |
| (vi) Trust/Mortgage Co.'s                         | _____ | _____ |
| (vii) Life insurance co.'s or pension funds       | _____ | _____ |
| (viii) Investment dealer                          | _____ | _____ |
| (ix) Federal Business Dev. Bank                   | _____ | _____ |
| (x) Other (Specify) _____                         | _____ | _____ |
| (xi) Other (Specify) _____                        | _____ | _____ |

(c) Equity capital

- |                            |       |       |
|----------------------------|-------|-------|
| (i) Own shareholders       | _____ | _____ |
| (ii) Investment dealers    | _____ | _____ |
| (iii) Venture capitalist   | _____ | _____ |
| (iv) FBDB                  | _____ | _____ |
| (v) Other (Specify) _____  | _____ | _____ |
| (vi) Other (Specify) _____ | _____ | _____ |

C. Financing Experience within Past Three Years

1. We are interested in your recent experiences in which funds were raised for your firm. Please give the information requested below for the four most recent financing episodes within the past three years.

1. MOST RECENT EPISODE

Type of Funding	Type of Supplier	Purpose	Security
<input type="checkbox"/> L.T. loan	<input type="checkbox"/> bank	_____	_____
<input type="checkbox"/> S.T. loan	<input type="checkbox"/> trust company	_____	_____
<input type="checkbox"/> lease	<input type="checkbox"/> finance company	_____	_____
<input type="checkbox"/> equity	<input type="checkbox"/> gov't agency	_____	_____
<input type="checkbox"/> other (Specify) _____	<input type="checkbox"/> other (Specify) _____	_____	_____

## 2. SECOND MOST RECENT

Type of Funding	Type of Supplier	Purpose	Security
<input type="checkbox"/> L.T. loan	<input type="checkbox"/> bank	_____	_____
<input type="checkbox"/> S.T. loan	<input type="checkbox"/> trust company	_____	_____
<input type="checkbox"/> lease	<input type="checkbox"/> finance company	_____	_____
<input type="checkbox"/> equity	<input type="checkbox"/> gov't agency	_____	_____
<input type="checkbox"/> other (Specify)	<input type="checkbox"/> other (Specify)	_____	_____
_____	_____	_____	_____

## 3. THIRD MOST RECENT

Type of Funding	Type of Supplier	Purpose	Security
<input type="checkbox"/> L.T. loan	<input type="checkbox"/> bank	_____	_____
<input type="checkbox"/> S.T. loan	<input type="checkbox"/> trust company	_____	_____
<input type="checkbox"/> lease	<input type="checkbox"/> finance company	_____	_____
<input type="checkbox"/> equity	<input type="checkbox"/> gov't agency	_____	_____
<input type="checkbox"/> other (Specify)	<input type="checkbox"/> other (Specify)	_____	_____
_____	_____	_____	_____

## 4. FOURTH MOST RECENT

Type of Funding	Type of Supplier	Purpose	Security
<input type="checkbox"/> L.T. loan	<input type="checkbox"/> bank	_____	_____
<input type="checkbox"/> S.T. loan	<input type="checkbox"/> trust company	_____	_____
<input type="checkbox"/> lease	<input type="checkbox"/> finance company	_____	_____
<input type="checkbox"/> equity	<input type="checkbox"/> gov't agency	_____	_____
<input type="checkbox"/> other (Specify)	<input type="checkbox"/> other (Specify)	_____	_____
_____	_____	_____	_____

2. All things considered, how well do you feel your firm's financing needs have been served by the institutions you have dealt with over the past three years? For instance, did you get the kind of financing you wanted? When you wanted it? On reasonable terms?

(a) Specific institution:	Very Poorly		Adequately				Very Well
	1	2	3	4	5	6	7
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

(b) Please make any comments you feel are appropriate to support the assessment made above. Use back of page if necessary.

3. In general, which one of the following 4 statements most accurately describes you firm's recent financing experience (i.e. past 3 years)?

- (a) We could always have obtained more than we applied for, on terms that we would have accepted. \_\_\_\_\_
- (b) We always obtained as much as we applied for. \_\_\_\_\_
- (c) We usually obtained as much as we applied for. \_\_\_\_\_
- (d) We usually did not obtain as much as we applied for. \_\_\_\_\_

Questions 4 to 7 ask for similar information about rejections of firm offers of short term financing, long term loans, lease financing and equity financing. In each question, you should include any rejection of an initial firm offer even if the lender followed up with a revised offer which you did accept. Include also any offers that you did not solicit.

4. Short Term Financing (less than one year)

(a) In the past 3 years have you ever rejected

- (i) a firm offer of short term financing?  
Yes \_\_\_\_\_ (Proceed) No \_\_\_\_\_ (Go to d)
- (ii) more than one firm offer for the same short term financing?  
Yes \_\_\_\_\_ No \_\_\_\_\_

(b) Altogether, in the past 3 years about how many firm offers of short term financing have you rejected? (Include all rejections of firm offers for each financing.)  
Number \_\_\_\_\_ Don't know \_\_\_\_\_

(c) Generally, what were the reasons for turning down firm offers of short term financing? Any or all may be checked.

- (i) Negotiated a better offer from the same lender \_\_\_\_\_
- (ii) Obtained a better offer from another lender \_\_\_\_\_
- (iii) Best offer not tolerable \_\_\_\_\_
- (iv) Rejected for reason other than financing terms \_\_\_\_\_
- (v) Other (Specify) \_\_\_\_\_
- (vi) Refused to answer \_\_\_\_\_

(d) How important would the following factors be in deciding whether to reject a firm offer of short term financing?

		Unimportant			Fairly Important		Extremely Important	
		1	2	3	4	5	6	7
(i)	Interest rate too high	—	—	—	—	—	—	—
(ii)	Not enough funds offered	—	—	—	—	—	—	—
(iii)	Too much collateral required	—	—	—	—	—	—	—
(iv)	Repayment sched. too rapid	—	—	—	—	—	—	—
(v)	Covenants too restrictive	—	—	—	—	—	—	—
(vi)	Personal guarantee required	—	—	—	—	—	—	—
(vii)	Other (Specify)	—	—	—	—	—	—	—

5. Long Term Loans(over one year) Not including lease financing.

(a) In the past 3 years have you ever rejected

(i) a firm offer of long term loan financing?

Yes \_\_\_\_\_ (Proceed) No \_\_\_\_\_ (Go to d)

(ii) more than one firm offer for the same long term loan financing?

Yes \_\_\_\_\_ No \_\_\_\_\_

(b) Altogether, in the past 3 years about how many firm offers of long term loan financing have you rejected? (Include all rejections of firm offers for each financing.)

Number \_\_\_\_\_ Don't know \_\_\_\_\_

(c) Generally, what were the reasons for turning down firm offers of long term loan financing? (Any or all may be checked)

- (i) Negotiated a better offer from the same lender \_\_\_\_\_
- (ii) Obtained a better offer from another lender \_\_\_\_\_
- (iii) Best offer not tolerable \_\_\_\_\_
- (iv) Rejected for reason other than financing terms \_\_\_\_\_
- (v) Other (Specify) \_\_\_\_\_
- (vi) Refused to answer \_\_\_\_\_

(d) How important would the following factors be in deciding whether to reject a firm offer of long term loan financing?

		Unimportant			Fairly Important		Extremely Important	
		1	2	3	4	5	6	7
(i)	Interest rate too high	—	—	—	—	—	—	—
(ii)	Not enough funds offered	—	—	—	—	—	—	—
(iii)	Too much collateral required	—	—	—	—	—	—	—
(iv)	Repayment sched. too rapid	—	—	—	—	—	—	—
(v)	Covenants too restrictive	—	—	—	—	—	—	—
(vi)	Personal guarantee required	—	—	—	—	—	—	—
(vii)	Other (Specify)	—	—	—	—	—	—	—

**6. Long Term Lease Financing (over one year)**

(a) In the past 3 years have you ever rejected

(i) a firm offer of long term lease financing?

Yes \_\_\_\_\_ (Proceed) No \_\_\_\_\_ (Go to d)

(ii) more than one firm offer for the same long term lease financing?

Yes \_\_\_\_\_ No \_\_\_\_\_

(b) Altogether, in the past 3 years about how many firm offers of long term lease financing have you rejected? (Include all rejections of firm offers for each financing.)

Number \_\_\_\_\_ Don't know \_\_\_\_\_

(c) Generally, what were the reasons for turning down firm offers of long term lease financing? (Any or all may be checked)

- (i) Negotiated a better offer from the same lessor \_\_\_\_\_
- (ii) Obtained a better offer from another lessor \_\_\_\_\_
- (iii) Best offer not tolerable \_\_\_\_\_
- (iv) Rejected for reason other than financing terms \_\_\_\_\_
- (v) Other (Specify) \_\_\_\_\_
- (vi) Refused to answer \_\_\_\_\_

(d) How important would the following factors be in deciding whether to reject a firm offer of long term lease financing?

		Unimportant			Fairly Important		Extremely Important	
		1	2	3	4	5	6	7
(i)	Rental payments too high	—	—	—	—	—	—	—
(ii)	Lease not long enough	—	—	—	—	—	—	—
(iii)	Covenants too restrictive	—	—	—	—	—	—	—
(iv)	Cancellation terms too severe	—	—	—	—	—	—	—
(v)	Lessor participation clause unsuitable	—	—	—	—	—	—	—
(vi)	Personal guarantee required	—	—	—	—	—	—	—
(vii)	Implicit interest rate too high	—	—	—	—	—	—	—
(viii)	Other (Specify)	—	—	—	—	—	—	—

**7. Equity Financing (voting common shares))**

(a) In the past 3 years have you ever rejected

(i) a firm offer of equity financing?

Yes \_\_\_\_ (Proceed) No \_\_\_\_ (Go to d)

(ii) more than one firm offer for the same equity financing?

Yes \_\_\_\_ No \_\_\_\_

(b) Altogether, in the past 3 years about how many firm offers of equity financing have you rejected? (Include all rejections of firm offers for each financing.)

Number \_\_\_\_ Don't know \_\_\_\_

(c) Generally, what were the reasons for turning down firm offers of equity financing? (Any or all may be checked)

- (i) Negotiated a better offer from the same supplier \_\_\_\_\_
- (ii) Obtained a better offer from another supplier \_\_\_\_\_
- (iii) Best offer not tolerable \_\_\_\_\_
- (iv) Rejected for reason other than financing terms \_\_\_\_\_
- (v) Other (Specify) \_\_\_\_\_
- (vi) Refused to answer \_\_\_\_\_

(d) How important would the following factors be in deciding whether to reject a firm offer of equity financing?

		Unimportant			Fairly Important		Extremely Important	
		1	2	3	4	5	6	7
(i)	Price per share too low	—	—	—	—	—	—	—
(ii)	Amount of financing available	—	—	—	—	—	—	—
(iii)	Control of operations via voting shares	—	—	—	—	—	—	—
(iv)	Suitability of buy-back agreement	—	—	—	—	—	—	—
(v)	Other (Specify) _____	—	—	—	—	—	—	—

8. (a) In the past three years, have lenders or other suppliers of capital ever turned down your request for financing so that you had to go to another source or abandon your plans?

Yes \_\_\_\_ (Proceed) No \_\_\_\_ (Go to 9)

- (b) Please indicate for each refusal, the type of financing sought, the type of supplier approached, the reason (if any) given for the refusal, your own opinion of why you were turned down and how the refusal affected your subsequent operations.

#### 1. MOST RECENT REFUSAL

Type of Funding Sought	Supplier	Reason given for refusal	Your opinion of reason for refusal	Outcome
<input type="checkbox"/> L.T. loan	<input type="checkbox"/> bank	_____	_____	<input type="checkbox"/> Found financing elsewhere
<input type="checkbox"/> S.T. loan	<input type="checkbox"/> trust company	_____	_____	<input type="checkbox"/> Forced to abandon plans for expansion
<input type="checkbox"/> lease	<input type="checkbox"/> finance company	_____	_____	<input type="checkbox"/> Forced to abandon plans for renovation
<input type="checkbox"/> equity	<input type="checkbox"/> gov't agency	_____	_____	<input type="checkbox"/> Loss of sales
<input type="checkbox"/> other (Specify) _____	<input type="checkbox"/> other (Specify) _____	_____	_____	<input type="checkbox"/> Other (specify) _____

## 2. SECOND MOST RECENT REFUSAL

Type of Funding Sought	Supplier	Reason given for refusal	Your opinion of reason for refusal	Outcome
<input type="checkbox"/> L.T. loan	<input type="checkbox"/> bank	_____	_____	<input type="checkbox"/> Found financing elsewhere
<input type="checkbox"/> S.T. loan	<input type="checkbox"/> trust company	_____	_____	<input type="checkbox"/> Forced to abandon plans for expansion
<input type="checkbox"/> lease	<input type="checkbox"/> finance company	_____	_____	<input type="checkbox"/> Forced to abandon plans for renovation
<input type="checkbox"/> equity	<input type="checkbox"/> gov't agency	_____	_____	<input type="checkbox"/> Loss of sales
<input type="checkbox"/> other (Specify) _____	<input type="checkbox"/> other (Specify) _____	_____	_____	<input type="checkbox"/> Other (specify) _____

## 3. THIRD MOST RECENT REFUSAL

Type of Funding Sought	Supplier	Reason given for refusal	Your opinion of reason for refusal	Outcome
<input type="checkbox"/> L.T. loan	<input type="checkbox"/> bank	_____	_____	<input type="checkbox"/> Found financing elsewhere
<input type="checkbox"/> S.T. loan	<input type="checkbox"/> trust company	_____	_____	<input type="checkbox"/> Forced to abandon plans for expansion
<input type="checkbox"/> lease	<input type="checkbox"/> finance company	_____	_____	<input type="checkbox"/> Forced to abandon plans for renovation
<input type="checkbox"/> equity	<input type="checkbox"/> gov't agency	_____	_____	<input type="checkbox"/> Loss of sales
<input type="checkbox"/> other (Specify) _____	<input type="checkbox"/> other (Specify) _____	_____	_____	<input type="checkbox"/> Other (specify) _____

## 9. Related Services

- (a) Financial institutions (e.g. banks) can provide many "related services" (e.g. payroll accounting and disbursement). Please indicate which of you are using now and which you may consider using in the future.



Service	Potential Use Now (Check)	Future Use (Check)
(i) Cash flow planning	_____	_____
(ii) Payroll	_____	_____
(iii) Data processing	_____	_____
(iv) Accounting packages for receivables, payables, inventories, etc.	_____	_____
(v) Credit enquiry services	_____	_____
(vi) Other (Specify) _____	_____	_____
_____	_____	_____

- (b) Would your firm be interested in purchasing a package of moderate cost personal financial advisory services as a fringe benefit for your employees?

As an additional benefit? Yes \_\_\_\_\_ No \_\_\_\_\_  
 In place of some existing  
 benefits? Yes \_\_\_\_\_ No \_\_\_\_\_

#### D. FUTURE FINANCING PLANS

##### 1. (a)

- (i) Does your firm have on hand a budgeted projection of financing needs over the next year or more?  
 Yes \_\_\_\_\_ (Proceed) No \_\_\_\_\_ (Go to 3)

- (ii) How many years does the projection cover?

0 1 2 3 4 5 6 or more

\_\_\_\_\_

- (iii) Who was responsible for preparing this projection?

Senior financial manager \_\_\_\_\_  
 Other \_\_\_\_\_

- (b) How would you rate your chances of obtaining the funds you require on acceptable terms?

		Virtually certain		50:50 chance		Most Unlikely		Won't Require
		1	2	3	4	5	6	7
(i)	Short debt	—	—	—	—	—	—	—
(ii)	Long debt (incl. leases)	—	—	—	—	—	—	—
(iii)	Equity	—	—	—	—	—	—	—

2. What difficulties do you foresee for your firm if it is unable to obtain funds required on acceptable terms, over your planning period described in the previous question? Check as many answers as applicable for both short and long term external financing.

		If can't get external		
		Short term (≤1 year)	Long term Debt ( >1 year)	Equity
(i)	Interruption of production or delivery schedules	—	—	—
(ii)	Temporary layoff of workers	—	—	—
(iii)	Long term layoff of workers	—	—	—
(iv)	Couldn't consolidate or fund short term loans	—	—	—
(v)	Reduction in growth of business	—	—	—
(vi)	Postponement of expansion of business	—	—	—
(vii)	Possible insolvency	—	—	—
(vii)	Possible bankruptcy	—	—	—
(ix)	None	—	—	—
(x)	Other (Specify) _____	—	—	—

3. Skip this question if you have already answered #2 above.

- (a) If you have not projected your financing requirements over the next year or more, how would you rate your chances of getting financing you may want on acceptable terms over the next three years?

Virtually certain		50:50 chance			Most Unlikely	
1	2	3	4	5	6	7
—	—	—	—	—	—	—

(b) What difficulties do you foresee for your firm if it is unable to obtain the funds you want on acceptable terms, over the next three years? (Verbatim response)

4. (a) Please assess the importance of the following objectives for the business in the next 3 to 5 years as stated or implied by the principal owners or managers.

Least Important			Moderately Important			Most Important
1	2	3	4	5	6	7
(i) Maintain control and independence	—	—	—	—	—	—
(ii) Growth in sales	—	—	—	—	—	—
(iii) Increase operating efficiency	—	—	—	—	—	—
(iv) Increase profits	—	—	—	—	—	—
(v) Have stable income and work style, perhaps with some sacrifice of potential growth or profits	—	—	—	—	—	—
(vi) Sell out	—	—	—	—	—	—
(vii) Refinance	—	—	—	—	—	—
(viii) Be a good corporate citizen, possibly at some sacrifice of other objectives	—	—	—	—	—	—

(b) Please list here any other objectives that you feel are at least moderately important.

5. Approximately what percentage of the firm's voting shares is held by the public? (i.e. people not associated with or related to management or principal shareholders). (Check appropriate range)

None (no shares held by the public) \_\_\_\_\_  
 1 - 49% \_\_\_\_\_  
 50 - 75% \_\_\_\_\_  
 76 - 100% \_\_\_\_\_

6. Generally, how important are the following actual or potential problems facing your business?

	Least Important			Moderately Important			Most Important
	1	2	3	4	5	6	7
(a) Marketing effectiveness,(sales force, pricing, promotion, distribution channels)	—	—	—	—	—	—	—
(b) Production (operating costs, operating process, raw materials, technology, product design, etc.)	—	—	—	—	—	—	—
(c) Inflation	—	—	—	—	—	—	—
(d) Government red tape	—	—	—	—	—	—	—
(e) Personnel (employee attitudes, availability of skilled help)	—	—	—	—	—	—	—
(f) Financing (cost, terms,availability)	—	—	—	—	—	—	—
(g) Unreliability of essential public services (e.g. postal)	—	—	—	—	—	—	—
(h) Labour relations (laws, standards, unions)	—	—	—	—	—	—	—
(i) Corporate taxes	—	—	—	—	—	—	—
(j) Personal taxes	—	—	—	—	—	—	—
(k) Cost controls; management of inventories and receivables	—	—	—	—	—	—	—
(l) Professional services: cost and availability (lawyers, accountants, etc.)	—	—	—	—	—	—	—

**E. GOVERNMENT ASSISTANCE**

1. What Federal Government programs in aid of small business are aware of:

Aware of	Yes	Eligible No	Don't Know	Have approached	Have made use of	Have been turned down by
_____	---	---	---	---	---	---
_____	---	---	---	---	---	---
_____	---	---	---	---	---	---
_____	---	---	---	---	---	---
_____	---	---	---	---	---	---
_____	---	---	---	---	---	---

2. What Provincial Government programs in aid of small business are aware of:

Aware of	Yes	Eligible No	Don't Know	Have approached	Have made use of	Have been turned down by
_____	---	---	---	---	---	---
_____	---	---	---	---	---	---
_____	---	---	---	---	---	---
_____	---	---	---	---	---	---
_____	---	---	---	---	---	---
_____	---	---	---	---	---	---

3. In your opinion what role, if any, should Canadian governments play in assisting small business in Canada? (Verbatim response)

**F. OTHER**

1. Do you have any other comments you wish to make concerning this study or on small business financing in Canada in general? (Verbatim response)

**INTERVIEWER'S COMMENTS**

1. Total time required to complete the interview (hours): \_\_\_\_\_
2. Other comments:

## Appendix B-2

### Dun & Bradstreet

#### DMI SUBSCRIPTION SERVICES FORM

The undersigned subscriber hereby employs Dun & Bradstreet Canada Limited/Limitée to furnish the Dun's Market Identifiers (DMI) file service for one year beginning

Dun & Bradstreet will deliver such service as described in the specifications below in accordance with a schedule mutually agreed upon by Dun & Bradstreet and Subscriber.

This cost of this service is \_\_\_\_\_

#### SPECIFICATION: \_\_\_\_\_

1. To produce thirty (30) different split tapes based on geography, sales ranges, and Canadian SIC's, eliminating branches, as in Appendix A of our letter of January 21, 1981.
2. Merge those tapes to produce ten universes by location. Produce a stand alone profile of each of the ten universes consisting of custom sales range by custom SIC groupings
3. Draw a stratified random sample by location of 3,000 firms, as outlined in our letter of January 21, 1981 (appendix A) with the following numbers of firms for each city:

Toronto	550
Montreal	500
Vancouver	350
Calgary	300
Saskatoon	200
Winnipeg	300
Kitchener	200
Quebec City	200
Halifax	200
St. John N.B.	200
	<u>3000</u>

4. Final output will be:

- a) Complete Dun's Market Identifier information for the companies in each geographic centre;
- b) Management control report for each location in random order. 2 copies.
- c) Stand alone profile of each location consisting of custom sales range by custom SIC groupings.

## Appendix B-2 (continued)

The Undersigned agrees that the services rendered will be subject to the following terms and conditions:

### TERMS OF AGREEMENT

1. This agreement is not binding upon Cun & Bradstreet Canada Limited/Limitée until accepted by it. Cun & Bradstreet Canada Limited/Limitée, also reserves the right to terminate this Agreement at any time, with or without reason, upon 30 days written notice, and in such event Cun & Bradstreet Canada Limited/Limitée, shall be obligated to refund the unearned portion calculated on a pro-rata basis, of the consideration paid by the subscriber.
2. All information furnished under this agreement is for the exclusive use of the undersigned customer and will not be made available to any other person in any form or manner whatsoever, except: 1) as to the particular establishment to which it relates, 2) the undersigned after first obtaining written permission from and complying with written instruction from Cun & Bradstreet Canada Limited/Limitée may furnish such information to another person for further handling, reprinting or display, and 3) if the customer is a publisher, the information may be made available as an aid in auditing its circulation by independent audit bureaus.
3. Cun & Bradstreet Canada Limited/Limitée does not guarantee the correctness of the information furnished, and Cun & Bradstreet Canada Limited/Limitée will not be liable for any loss or injury caused, in whole or in part, either by its negligence or by contingencies beyond its control, in procuring, compiling, collecting, interpreting, communicating or delivering such information.
4. Neither the service name and/or Cun & Bradstreet Canada Limited/Limitée may be identified as a source reference except by written permission from Cun & Bradstreet Canada Limited/Limitée, which, without in any way limiting the foregoing, reserves the right, in its absolute discretion, to verify the accuracy of any question or statement derived from information obtained from Cun & Bradstreet Canada Limited/Limitée.
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6. The rights and obligations of the parties to this agreement apply from the date of signing to all information furnished at any time to the customer under terms of this agreement. This written agreement contains the entire and only agreement between the parties, and there are merged herein all prior and collateral representations, promises and conditions in connection with the subject matter hereof and any representation, promise, guarantee or condition not incorporated herein shall not be binding upon either party. No waiver or amendment of this agreement shall be binding on the parties unless in writing, signed by an authorized official of Cun & Bradstreet Canada Limited/Limitée and the customer.

NOTE: Any and all information furnished hereunder in whatever form, printed and/or in any data processing format is the property of Cun & Bradstreet Canada Limited/Limitée and is loaned to the customer for one year with the understanding that it will be returned to Cun & Bradstreet Canada Limited/Limitée upon further notice, either upon request by the customer or any written notice thereof or at the expiration or termination of the subscription.

Accepted	Subscriber's Name _____
Cun & Bradstreet Canada Limited/Limitée	Line of Business _____
By _____	Street & No. _____
	City _____ Prov. _____ Postal Code _____
Date _____	Customer's Authorized Signature _____



**Appendix B-2 (continued)**  
**SIZE CRITERIA BY INDUSTRY**

<u>INDUSTRY</u>	<u>CANADIAN 3-DIGIT SIC CODES</u>	<u>RANGE FOR SALES</u>
Forestry	031/039	\$100,000 to \$ 4,000,000
Mining and Petroleum	051/052/057 058/059/061 064/071/072 073/079/083 087/096/098 099	\$100,000 to \$30,000,000
Food, Beverage and Tobacco Products	100/101/102 103/104/105 106/107/108 109/152/153	\$100,000 to \$40,000,000
Rubber, Plastics and Leather	162/165/172 174/175/179	\$100,000 to \$ 8,000,000
Textiles and Clothing	181/182/183 184/185/186 187/188/189 231/239/243 244/245/246 248/249	\$100,000 to \$15,000,000
Furniture and Wood Industry	251/252/254 256/258/259 261/264/266 268	\$100,000 to \$15,000,000
Paper and Allied Industries	271/273/274	\$100,000 to \$15,000,000
Printing and Publishing	286/287/288 289	\$100,000 to \$20,000,000
Iron and Steel	291/292/294 295	\$100,000 to \$ 3,000,000
Metal Products	296/297/298 301/302/304 305/307/308 309	\$100,000 to \$30,000,000

<u>INDUSTRY</u>	<u>CANADIAN 3-DIGIT SIC CODES</u>	<u>RANGE FOR SALES</u>
Machinery and Electrical Products	311/315/316 318/331/332 333/334/335 336/338/339	\$100,000 to \$25,000,000
Transportation Equipment	321/323/324 325/326/327 328/329	\$100,000 to \$75,000,000
Non-metallic Products	303/351/352 353/354/355 356/357/358 359/369	\$100,000 to \$20,000,000
Petroleum Refineries (2911 U.S.)	365	\$100,000 to \$ 1,000,000
Chemical and Chemical Products	372/373/374 375/376/377 378/379	\$100,000 to \$25,000,000
Miscellaneous Manufacturers	272/306/391 392/393/397 399	\$100,000 to \$25,000,000
Construction Industry	400/404/406 409/421/516	\$100,000 to \$30,000,000
Transportation	500/501/502 503/504/505 507/508/509 512/515/517 519	\$100,000 to \$30,000,000
Storage	506/524/527	\$100,000 to \$ 3,000,000
Communication	543/544/545 548	\$100,000 to \$ 5,000,000
Utilities	572/574/576 579	\$100,000 to \$ 2,000,000

<u>INDUSTRY</u>	<u>CANADIAN 3-DIGIT SIC CODES</u>	<u>RANGE FOR SALES</u>
Wholesalers of Consumer Merchandise	611/612/616 617/618/619	\$100,000 to \$25,000,000
Food and Tobacco Wholesalers	614/615	\$100,000 to \$15,000,000
Wholesalers of Industrial Products	606/608/621 622/623/624 625/626/627 629	\$100,000 to \$20,000,000
Retailers of Food and Tobacco Products	631/697	\$100,000 to \$20,000,000
Retailers of General Merchandise	613/642/652 663/665/667 669/676/681 691/692/694 696/699/656	\$100,000 to \$20,000,000
Retail Services	654/658/678 695/871/872 893/874/876 877/879	\$100,000 to \$ 5,000,000
Recreation and Amusement	841/842/843 844/845/849	\$100,000 to \$ 4,000,000
Service to Business	851/853/855 862/866/867 869	\$100,000 to \$ 7,000,000
Miscellaneous Services	894/895/896 897/898/899 045	\$100,000 to \$ 3,000,000
Accomodation	881/883/884 886	\$100,000 to \$15,000,000

Appendix B - 3

DUN AND BRADSTREET UNIVERSE OF FIRMS  
IN THE 10 CENTRES  
BY SALES RANGE AND 2 - DIGIT SIC (U.S.)

	Sales \$100,000 - 2,000,000	Sales over \$2,000,000	Total
<b>Forestry and Fisheries</b>			
08 Forestry	78	16	94
09 Fisheries	<u>152</u>	<u>8</u>	<u>160</u>
	<u>230</u>	<u>24</u>	<u>254</u>
<b>Mining</b>			
10 Metal	147	55	202
11 Anthracite	0	1	1
12 Bituminous	18	4	22
13 Oil and Gas	906	214	1,120
14 Mining and Quarrying	<u>309</u>	<u>64</u>	<u>373</u>
	<u>1,380</u>	<u>338</u>	<u>1,718</u>
<b>Construction</b>			
15 General Building	9,192	1,281	10,473
16 Heavy	2,367	515	2,882
17 Special Trade	<u>16,871</u>	<u>921</u>	<u>17,792</u>
	<u>28,430</u>	<u>2,717</u>	<u>31,147</u>
<b>Manufacturing</b>			
20 Food and Kindred	1,447	665	2,112
21 Tobacco	6	3	9
22 Textile Mill	468	209	677
23 Apparel	1,825	481	2,306
24 Lumber and Wood	4,515	615	5,130
25 Furniture and Fixtures	1,215	237	1,452
26 Paper	254	121	375
27 Printing and Publishing	2,910	277	3,187
28 Chemicals	628	294	922
29 Petroleum	62	29	91
30 Rubber and Plastics	581	153	734
31 Leather	247	80	327
32 Stone, Clay, etc.	1,017	220	1,237
33 Primary Metals	348	55	403
34 Fabricated Metal	2,289	621	2,910
35 Machinery (ex. electric)	3,548	759	4,307
36 Machinery (electric)	845	282	1,127
37 Transportation Equipment	761	198	959
39 Miscellaneous	<u>1,139</u>	<u>181</u>	<u>1,320</u>
	<u>24,105</u>	<u>5,480</u>	<u>29,585</u>

	Sales \$100,000 - 2,000,000	Sales over \$2,000,000	Total
<b>Transportation, Communication and Other Public Utilities</b>			
40 Railroad	6	4	10
41 Local Transit	865	60	925
42 Trucking and Warehousing	4,785	208	4,993
44 Water	390	68	458
45 Air	279	51	330
46 Pipelines	6	13	19
47 Services	1,221	219	1,440
48 Communication	361	48	409
49 Electric, Gas Sanitary	270	7	277
	<u>8,183</u>	<u>678</u>	<u>8,861</u>
<b>Wholesale Trade</b>			
50 Durable Goods	12,187	3,076	15,263
41 Non-durable Goods	7,913	1,990	9,903
	<u>20,102</u>	<u>5,066</u>	<u>25,168</u>
<b>Retail Trade</b>			
52 Building Materials	5,739	401	6,140
53 General Merchandise	4,232	214	4,446
54 Food Stores	10,800	576	11,376
55 Auto Dealers, Gas Stations	14,390	2,257	16,647
56 Apparel and Accessories	8,017	182	8,199
57 Furniture and Equipment	8,000	259	8,259
58 Eating and Drinking	10,517	209	10,726
	<u>61,695</u>	<u>4,098</u>	<u>65,793</u>
<b>Finance, Real Estate</b>			
60 Banking and Trust	35	12	47
61 Credit Agencies (ex. 60)	312	63	375
62 Security Brokers etc.	140	45	185
63 Insurance Carriers	117	28	145
64 Insurance Agents	1,319	127	1,446
65 Real Estate	3,896	390	4,286
66 Combined Finance, r.e.	111	7	118
	<u>5,930</u>	<u>672</u>	<u>6,602</u>

	Sales \$100,000 - 2,000,000	Sales over \$2,000,000	Total
<b>Services</b>			
70 Hotels, etc.	3,698	164	3,862
72 Personal	1,565	28	1,593
73 Business	7,182	491	7,673
75 Auto Repair	6,590	207	6,797
76 Misc. Repair	2,700	47	2,747
79 Amusement and Recreation	1,298	51	1,349
81 Legal	154	2	156
89 Miscellaneous	1,975	104	2,079
	<u>25,162</u>	<u>1,094</u>	<u>26,256</u>
<b>Grand Totals</b>	<u>\$175,217</u> (90%)	<u>\$20,167</u> (10%)	<u>\$195,384</u>

**Detailed Breakdown of  
Grand Totals**

Sales Range	Number of Firms	%
\$100,000-2 million	175,217	90
2-3 million	7,482	4
3-5 million	6,084	3
5-15 million	5,670	3
15-25 million	749	0
25-40 million	163	0
40-75 million	19	0
	<u>195,384</u>	<u>100%</u>

## Appendix B-4

### SMALL BUSINESS FINANCING SURVEY INTERVIEWER'S INSTRUCTIONS

For your information, we have attached details on conducting the survey including:

- A. Objectives of the Survey
- B. Who is to be interviewed
- C. Timing
- D. Procedure Summary
- E. Procedure Details
- F. Interviewer's Aid
- G. Thank you letter draft to be typed on your local office letterhead.
- H. To Conclude

If you have any questions, please contact the Project Co-ordinator.

Barbara Wilkes MBA, CA  
Consultant, Woods Gordon 416-864-1212

#### A. OBJECTIVES OF THE SURVEY

This survey is being done for FACSVM, a company formed for use solely by members of the Faculty of Management Studies, University of Toronto. The objective of the study is to determine what problems are faced by Small Business in obtaining financing; whether there are any "gaps" in the financing available; whether there is significant voluntary under-exploitation of available profit making opportunities by small businesses; and opportunities to facilitate the flow of funds from savers to small businesses. It is important to consider these objectives when conducting the interview.

#### B. WHO WILL BE INTERVIEWED?

In total, 300 interviews will be conducted across the country, covering independent private businesses with sales ranging from \$50,000 to \$75 million (depending on the industry). We would like to be able to interview the most senior financial person in the organization. You may find that it is best to see the General Manager or President depending on the size and number of employees in the company.

You will be provided with the names of the companies you are to interview by the Supervisor of Interviewers appointed for the project in your office. It is imperative that you work in accordance with the Supervisor's instructions about the order of the interviews. If additional names are required to fill your quota, your Supervisor of Interviewers will contact Barbara Wilkes, Consultant, Woods Gordon in Toronto office for additional samples.

**Note to Supervisor of Interviewers:**

As this list is based on Dun & Bradstreet files, there may have been changes in the control of the organization. Please ensure that the company is not controlled by a large or foreign organization, i.e. it is a Canadian-controlled private company.

**C. TIMING**

1. We expect interviews will take approximately 1-2 hours to complete, on average about 1½ hours.
2. All completed interviews must be sent by courier to reach Toronto by your scheduled dates.

**D. PROCEDURE SUMMARY**

1. Initial contact with potential interviewees will be sent by letter from Woods Gordon's Toronto office.
2. A list of names of potential interviewee firms will be sent to the Supervisor of Interviewers, appointed for the project in each of our participating offices.
3. Follow-up phone calls will be made by each Supervisor of Interviewers, working in the order of the list of names provided, to see if an interview can be arranged, and if it can, to arrange a suitable time.
4. The Supervisor of Interviewers will assign interviews in the order that the names appear on the list received from the Toronto office.
5. After no more than 7% to 10% of your quota of completed interviews have been conducted there will be a brief halt in the interviewing process, to allow each office to report any problems with the survey to the Head Office Co-ordinator of the fieldwork.



6. When problems have been discussed with FACSVM and any necessary remedial action prescribed, the interviews will resume. We expect only a brief delay.
7. Conduct the interview as soon as possible, and as carefully as possible. (The interviews provide the firm with valuable exposure. It is imperative, however, that the interview not be used in any direct way to promote the service of Clarkson Gordon. The professional conduct of the interview speaks for itself.)
8. After returning to the office, review the questionnaire to ensure all items are completed.
9. Send thank you letters to participants and attach a copy to the questionnaire.
10. When all your required interviews are completed, please mark CONFIDENTIAL and return to:

B.A. Wilkes, Consultant  
Woods Gordon  
P.O. Box 251  
Toronto-Dominion Centre  
Toronto, Ontario

**E. PROCEDURE DETAILS**

**I. Supervisor of Interviewers**

**a) General**

- 1) You will receive a package of numbered questionnaires and a list of their numbers. Check to make sure that the list includes exactly those numbers on the questionnaires and that the questionnaires are correctly numbered on every page. As you proceed with the interviewing, write on the list opposite each number the disposition of the questionnaire bearing that number:

Completed Interview with Firm Name \_\_\_\_\_ ID Number \_\_\_\_\_

Partially Completed Interview with Firm Name \_\_\_\_\_ ID Number \_\_\_\_\_

Given to Respondent Completed Interview with Firm Name \_\_\_\_\_

ID Number \_\_\_\_\_

Spoiled

Found Defective (missing pages, etc.)

Lost

Etc.

When all interviews are complete return the list, the completed questionnaires, and all spoiled, defective, or partially completed questionnaires to the project supervisor.

- 2) You will receive a list of companies including name, address, telephone number, name of principal officer, and an identification number. Letters will be sent to these firms requesting an interview. After allowing time for the letter to be received, call the firm and try to set up an appointment.

**b) Arranging Interviews**

The Supervisor of Interviewers must read the contact letter and the questionnaire before conducting follow-up phone calls. The Supervisor will try to set up the most convenient times for the interviewee.

The reason Clarkson Gordon is involved, is to ensure the **Confidentiality** of the survey. We will **NOT** be releasing to FACSVM the details of who was interviewed, etc. Please make sure the interviewee is aware of this fact. (FACSVM will have Dun & Bradstreet information on the aggregate/characteristics of companies invited to participate in the survey, but will not have the names of the participants.)

Please answer any questions the potential interviewee may have on the survey. He may want reassurance on the following:

1. We are doing the survey for FACSVM as part of an overall study being done for the federal government and the Canadian non-bank financial institutions (trust companies, finance companies and Roynat).
2. The survey results will be computerized and used to get information such as:
  - What type of problems do small businesses face in obtaining financing?

- What areas are there where insufficient financing is available?
  - Are their managers aware of all their financing alternatives?
  - How can service to small businesses be improved?
3. The participant's and company names will be kept confidential by Clarkson Gordon. This is included in our contract with the FACSVM.
  4. The only financial information asked is gross sales and total assets. The main part of the survey is asking about financing procedures in a range, e.g. \$500,000 - \$1,000,000.
  5. Participants will be provided with a blank copy of the questionnaire so that they can follow along readily, a copy of **Incentives for Industry**, and if they request it, a copy of the Executive Summary of the findings.

Please tell the potential interviewee that we expect it to take about an hour and one-quarter of his time, and that his participation can be of value to him.

It is important for the statistical validity of the results that the firms be contacted in exactly the order in which they appear on the list. As you contact each firm, write in the space provided on the list, the result of the attempt: appointment made (time and date), appointment refused, unable to contact, "maybe later but not this month", etc. It is important to be as complete and accurate as possible in this operation. In particular, in the case of refusals, you should try to get down an indication of the reason for the refusal, if the respondent will give it. If you are unable to contact a firm after three attempts, you are expected to make enquiries about the firm, and find out, if possible, whether the firm is out of business, has moved, etc. Enter the information you turn up under "Disposition". If you are refused an interview, try to get as much information about the firm as possible on the phone, to the point of conducting a "mini-interview" if it can be done. Answers can be put in the "Remarks" space on the company list, or if the information warrants it on a questionnaire. In the latter case be sure to note on the questionnaire that it was a telephone interview and tick "partial interview" on the questionnaire list. If the firm has moved or changed its name, note new name or address in the space provided.

## II. Interviewers

### I. Supplies

FACSVM has provided us with folders, interviewee copies of the questionnaire, and copies of the federal government publication, **Incentives for Industry**. There is also a card to insert in the top slot on the folder on which the interviewee's name, position and company should be typed.

No Woods Gordon nor Clarkson Gordon promotional materials should be taken to the interview as this would contravene standard survey ethics.

2. Conducting the Interview

First impressions are critical during an interview.

We are asking a big favour of the interviewee - an hour or so of valuable time which is being volunteered.

Give the prepared folder and contents to the interviewee at the start of your interview.

The folder provided includes a copy of the questionnaire for the person being interviewed to keep, together with a copy of the federal government publication, **Incentives for Industry**.

In keeping with the use of experienced auditors as interviewers, the folder is of high quality. (It is just possible, however, that an interviewee might remark on its cost to the taxpayer. In such a case it should be pointed out that the extra costs of the folder are being borne entirely by FACSVM, as a small token of their appreciation of the interviewee's participation.)

While following the questionnaire, please allow the interviewee enough time to explain problems or his concerns. If information received seems important but does not "fit" the questionnaire, make notes as well.

3. Pages i and ii of the preface to the questionnaire (company identification and Dun & Bradstreet data should be filled in before the interview. At the same time, check the questionnaire over for defects. If you discover a defect during the interview, substitute another questionnaire at the point at which the defect is found. Then after the interview ensure that both the questionnaire that was begun and the one that was finished have the full company identification of page i, and attach them together.
4. After the interview is completed write the number(s) of the questionnaire(s) used in the space provided on the company list, and write the company name and ID number on the questionnaire list.
5. After the interview you should, as soon as possible, while impressions are still fresh, complete the last page of the questionnaire, which asks for your impressions of the company you just contacted. Try to give an objective appraisal as if, say, you were thinking of buying stock in the firm. Note down any observation which you think will help put the replies of the respondent in the right perspective.

6. If you are unable to complete an interview once begun, note the reasons for the failure to complete on the last page of the questionnaire along with your general impressions, and note "Partial Interview" on the Questionnaire list.

#### **H. TO CONCLUDE**

Your office will be given:

1. List of Questionnaire numbers
2. List of Firms
3. Copies of the federal government's **Incentives for Industry**
4. Package of numbered Questionnaires, with folders

You should return:

1. List of Questionnaire numbers, with the disposition of each questionnaire noted, and firm name and number noted for each questionnaire used in interview.
2. List of Firms, with record and outcome of contact attempts for each firm noted, and questionnaire numbers for each firm for which an interview was begun.
3. Completed questionnaires with all identification blanks filled in and your own remarks on the last page.
4. Partially completed questionnaires with all identification blanks filled in, the reason for failing to complete the interview noted on the last page, with your own remarks.
5. Spoiled or defective questionnaires, except those discovered during an interview: these will be with the completed questionnaires as in General Instruction 3.
6. Copies of your Thank You letters, your telephone listing and your time summary.

To: B.A. Wilkes, MBA, CA  
30th Floor  
P.O. Box 251  
Toronto, Ontario  
M5K 1J7

## **CONFIDENTIAL**

Whenever possible, use our interoffice mail service, otherwise courier service. Do not use the Post Office.

### **Charge Codes**

1. The charge code for the interview is
2. The telephone code to be used on all calls after Feb. 1, 1981 is

Dear

On behalf of FACSYS, Woods Gordon, and Clarkson Gordon, I would like to thank you for your participation in the Small Business Financing Survey.

With co-operation such as yours, we are hopeful that the survey results will provide information leading to an improvement in the financing available to small business.

Thank you again for your participation.

Best regards,

(for those interviewers who request the Executive Summary)

P.S. As you requested, a copy of the Executive Summary will be forwarded to you when it is available.

# Appendix B-5

## TABULATION OF RESPONSES TO THE QUESTIONNAIRE BASED ON 292 RETURNS

Title of person interviewed:	#	%
President	223	77
Chief financial officer	30	10
Other	36	12
No answer	3	1
<b>Total</b>	<b>292</b>	<b>100</b>

### Month of interview:

April	145	50
May	139	48
No answer	8	2
<b>Total</b>	<b>292</b>	<b>100</b>

### Data supplied by Dun & Bradstreet:

#### a) Sales - year reported

1979	12
1980	167
1981	7
No answer	106
<b>Total</b>	<b>292</b>

#### b) Net worth (only 47 of 292 reported)

Median	\$375,000
Maximum	6,000,000
Minimum	20,000

#### c) Sales (per D&B)

	%
\$100,000 - 200,000	12
\$200,000 - 500,000	25
\$500,000 - 1 million	21
\$ 1 million - 10 million	40
Over \$10 million	2
<b>Total</b>	<b>100</b>



Median	\$890,000
Minimum	100,000
Maximum	over 30 million
Mean	1,735,000

d) Number of employees (full time)

	D&B (p.ii) %	Respondent (p.2) %
1	1	1
2-5	21	23
6-10	22	21
11-25	26	23
26-50	17	16
51-100	9	12
over 100	4	4
<b>Total</b>	<b>100</b>	<b>100</b>
Mean	26	28
Median	12	13
Minimum	1	1
Maximum	300	375

e) Start up year for the business:

	%	%
Pre 1960	29	41
1960-69	40	34
1970-79	29	22
1980-81	2	2
<b>Total</b>	<b>100</b>	<b>100</b>
Median	1965	1963
Mean	1963	1959
Missing cases	2	8
<b>Variance</b>	<b>127</b>	<b>234</b>

3. (a) Which of the following categories best describes where you actively distribute or provide your products or services?

	#	%
(i) Locally (in town)	123	42
(ii) Provincially	60	21
(iii) More than one province	50	17
(iv) National (i.e. most provinces)	59	20
<b>Total</b>	<b>292</b>	<b>100</b>

- (b) Do you export products or services to other countries?

<b>Yes</b>	57 (21%)	<b>No</b>	212 (79%)
<b>No answer</b>	23 (8%)		

4. Approximate sales and assets for 1980:  
(Please check category)

	Sales		Assets	
	#	%	#	%
Less than \$100,000	2	1	38	13
\$100,000 - 200,000	20	6	50	18
\$200,000 - 500,000	60	21	81	29
\$500,000 - 1 million	59	20	37	13
\$ 1 million - 10 million	135	47	74	26
\$10 million - 30 million	12	4	2	1
Over \$30 million	2	1	2	
Missing - no answer	2	Adj.	8	Adj.
<b>Total</b>	<b>292</b>	<b>100</b>	<b>292</b>	<b>100</b>

5. Approximately how fast (on average) have your annual dollar sales been growing over the past three years? (Please check category)

	#	%
No growth or shrinkage	33	12
0 - 10% per year	83	29
10 - 20% per year	105	37
20 - 30% per year	40	14
30 - 50% per year	15	5
Over 50% per year	10	3
No answer	6	Adj.
<b>Total</b>	<b>292</b>	<b>100</b>

6. How many full-time employees are there (approximately)? see above

7. Financial management:

- (a) Does your firm have a full-time (specialized) financial manager?

**Yes** 71 (24%)                      **No** 221 (76%)

- (b) Does the person who manages the firm's finances have any formal accounting or financial training (e.g. C.A., R.I.A., C.G.A.)?

**Yes** 65 (23%)                      **No** 217 (77%)  
**No answer** 10 (Adj)

#### B. Current Financial Policy

1. In your considered opinion, how important are the following sources of advice for financial policy making in your firm? (Check each)

**Proportion of Responses**  
 (adjusted for missing cases)

		Unimportant		Moderately Important		Extremely Important		
		1	2	3	4	5	6	7
(i)	Internal-financial manager	40	3	1	6	8	14	29
(ii)	Internal-other	24	2	5	8	11	14	36
(iii)	External-banker	27	13	10	22	10	10	9
(iv)	External-public accountant	12	9	9	18	18	19	15
(v)	External-other	59	7	5	9	7	7	5
(vi)	Major shareholder not active in the business	70	7	3	6	3	7	4

2. General information on maturity structure of the firm's financing:

- (a) Do you ever use short-term financing (e.g. bank line of credit) to meet long-term needs (e.g. new equipment, permanent increases in working capital)?

	#	%
Yes	115	39
No	175	60
Don't Know	2	1
<b>Total</b>	<b>292</b>	<b>100</b>

- (b) Why? (Check if applicable):

	#	%
(i) Temporary measure, e.g. waiting for better time to obtain long-term financing	42	39
(ii) Because of covenant restrictions imposed by suppliers of capital	4	4
(iii) Only type of financing I could get	17	16
(iv) Other (specify)	44	41
No answer	185	Adj.
<b>Total</b>	<b>292</b>	<b>100</b>

- (c) Do you find this policy desirable?

<b>Yes</b>	71 (64%)	<b>No</b>	40 (36%)
<b>No answer</b>	181 (Adj)		

(d) How often does this occur?	Always	23	20
	Usually	27	24
	Occasionally	63	56
	No answer	179	Adj.
<b>Total</b>		<b>292</b>	<b>100</b>

### 3. Search procedures for sources of capital:

If your firm needed financing today, what potential sources of supply would you approach?

	Would approach  (check)	Rank order in which you would prefer to deal with those checked (ties allowed)
<b>(a) Short-term</b>		
(i) Own shareholders	_____	_____
(ii) Friends, relatives ,other than (i).	_____	_____
(iii) Caisse Populaire/Credit Union	_____	_____
(iv) Chartered Bank	_____	_____
(v) Financial Corporation (e.g. Factor, Finance Co.)	_____	_____
(vi) Trust Company	_____	_____
(vii) Other (Specify) _____	_____	_____
(viii) Other (Specify) _____	_____	_____
<b>(b) Long term debt or lease</b>		
(i) Own shareholders	_____	_____
(ii) Friends, relatives ,other than (i).	_____	_____
(iii) Caisse Populaire/Credit Union	_____	_____
(iv) Chartered Bank	_____	_____
(v) Financial Corporation (e.g. equipment lessor)	_____	_____
(vi) Trust/Mortgage Co.'s	_____	_____
(vii) Life insurance co.'s or pension funds	_____	_____
(viii) Investment dealer	_____	_____
(ix) Federal Business Dev. Bank	_____	_____
(x) Other (Specify) _____	_____	_____
(xi) Other (Specify) _____	_____	_____
<b>(c) Equity capital</b>		
(i) Own shareholders	_____	_____
(ii) Investment dealers	_____	_____
(iii) Venture capitalist	_____	_____
(iv) FBDB	_____	_____
(v) Other (Specify) _____	_____	_____
(vi) Other (Specify) _____	_____	_____

### C. Financing Experience within Past Three Years

1. We are interested in your recent experiences in which funds were raised for your firm. Please give the information requested below for the four most recent financing episodes within the past three years.

	Episode			
Type of Funding	1	2	3	4
No. of respondents	267	169	86	36
<u>Relative frequencies</u>				
L.T. loan	29	47	41	50
S.T. loan	66	41	42	36
lease	2	8	12	6
equity	2	2	1	8
other	1	2	4	0
Total	100	100	100	100

Type of Supplier				
No. of respondents	264	164	84	36
<u>Relative frequencies</u>				
bank	85	59	51	47
trust company	1	6	7	8
finance company	3	13	16	17
gov't agency	2	4	6	8
other	8	18	20	20
Total	100	100	100	100

2. All things considered, how well do you feel your firm's financing needs have been served by the institutions you have dealt with over the past three years? For instance, did you get the kind of financing you wanted? When you wanted it? On reasonable terms?

(a) Specific institution:	Line mentioned			
	1	2	3	4
Bank	94	33	17	
Trust company	1	11	11	
Finance co; lessor	2	19	22	
Manufacturer/dealer	1	6	11	
Suppliers, trade cred.	0	1	0	
FBDB	1	14	11	
gov't agency ex.6	0	6	6	
Life ins., pension	0	5	11	
Credit Union, caisse	1	6	11	
Venture capital co.	0	0	0	
Other	0	0	0	
Total	100	100	100	

No. of respondents	244	88	18	4
--------------------	-----	----	----	---

Rating of institution mentioned:

1. Very poor	6	5	4
2.	3	2	0
3.	8	7	4
4. Adequate	17	16	30
5.	13	8	9
6.	13	25	39
7. Very good	40	37	13
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

No. of responses	270	100	23	5
------------------	-----	-----	----	---

(b) Please make any comments you feel are appropriate to support the assessment made above.

Response category:

Frequencies

	#	Raw	Adjusted
1. Generally favourable	63	22	37
2. Generally unfavourable	71	24	42
3. Both 1 & 2 mixed	20	7	12
4. Other comments	16	6	9
5. No answer	122	41	Adj.
<b>Total</b>	<b>292</b>	<b>100</b>	<b>100</b>

3. In general, which one of the following 4 statements most accurately describes you firm's recent financing experience (i.e. past 3 years)?

	#	%
(a) We could always have obtained more than we applied for, on terms that we would have accepted.	80	29
(b) We <u>always</u> obtained as much as we applied for.	124	45
(c) We <u>usually</u> obtained as much as we applied for.	42	15
(d) We <u>usually</u> did not obtain as much as we applied for.	30	11
No answer	16	Adj.
<b>Total</b>	<b>291</b>	<b>100</b>

4. **Short Term Financing** (less than one year)

(a) In the past 3 years have you ever rejected

(i) a firm offer of short term financing?

Yes	58 (21%)	No	220 (79%)
No answer	14 (Adj)		

(ii) more than one firm offer for the same short term financing?

Yes	22 (55%)	No	18 (45%)
No answer	252 (Adj)		

(b) Altogether, in the past 3 years about how many firm offers of short term financing have you rejected? (Include all rejections of firm offers for each financing.)

Number	_____	Don't know	_____
--------	-------	------------	-------

No. of rejections reported

	#	%
1	18	38
2	15	31
3	10	20
4	2	4
6 - 12	3	7
<b>Total</b>	<b>48</b>	<b>100</b>

(c) Generally, what were the reasons for turning down firm offers of short term financing? (Any or all may be checked)

**No. of answers**

(i) Negotiated a better offer from the same lender	7
(ii) Obtained a better offer from another lender	13
(iii) Best offer not tolerable	9
(iv) Rejected for reason other than financing terms	5
(v) Other (Specify) _____	30
(vi) Refuse to answer	1

(d) How important would the following factors be in deciding whether to reject a firm offer of short term financing?



**Proportion of answers**  
(Adjusted for missing cases)

	Unimportant			Fairly Important		Extremely Important	
	1	2	3	4	5	6	7
(i) Interest rate too high	5	3	2	7	9	12	60
(ii) Not enough funds offered	11	10	5	19	13	14	28
(iii) Too much collateral required	10	8	5	16	18	17	27
(iv) Repayment sched. too rapid	14	13	11	14	19	13	17
(v) Covenants too restrictive	13	10	12	12	13	19	22
(vi) Personal guarantee required	16	13	9	11	8	12	32
(vii) Other (Specify) _____	13	0	4	17	0	17	48

**6. Long Term Loan Financing (over one year) Not including lease financing.**

(a) In the past 3 years have you ever rejected

(i) a firm offer of long term loan financing?

<b>Yes</b>	48 (18%)	<b>No</b>	224 (82%)
<b>No answer</b>	20 (Adj)		

(ii) more than one firm offer for the same long term loan financing?

<b>Yes</b>	19 (43%)	<b>No</b>	25 (57%)
<b>No answer</b>	248 (Adj)		

(b) Altogether, in the past 3 years about how many firm offers of long term financing have you rejected? (Include all rejections of firm offers for each financing.)

	<u>Number</u>	<u>Don't know</u>	2
<u>No. of rejections reported:</u>	<u>#</u>	<u>%</u>	
1	21	48	
2	11	25	
3	5	11	
4	2	5	
5-12	5	11	
<b>Total</b>	<b>44</b>	<b>100</b>	
Mean	2.4		
Median	1.6		
Variance	6.1		

(c) Generally, what were the reasons for turning down firm offers of long term loan financing? (Any or all may be checked)

# of answers

(i)	Negotiated a better offer from the same lender	5
(ii)	Obtained a better offer from another lender	18
(iii)	Best offer not tolerable	10
(iv)	Rejected for reason other than financing terms	7
(v)	Other (Specify) _____	16
(vi)	Refuse to answer	0

(d) How important would the following factors be in deciding whether to reject a firm offer of long term loan financing?

Proportion of answers  
(Adjusted for missing cases)

		Unimportant			Fairly Important			Extremely Important
		1	2	3	4	5	6	7
(i)	Interest rate too high	3	2	1	4	8	17	65
(ii)	Not enough funds offered	8	8	5	18	15	18	28
(iii)	Too much collateral required	9	6	8	14	20	16	27
(iv)	Repayment sched. too rapid	10	9	10	17	21	15	19
(v)	Covenants too restrictive	13	8	11	16	15	16	21
(vi)	Personal guarantee required	15	11	7	12	11	11	34
(vii)	Other (Specify)	30	7	3	3	7	10	40

#### 6. Long Term Lease Financing (over one year)

(a) In the past 3 years have you ever rejected

(i) a firm offer of long term lease financing?

Yes	39 (15%)	No	222 (85%)
No answer	31 (Adj)		

(ii) more than one firm offer for the same long term lease financing?

Yes	19 (58%)	No	14 (42%)
No answer	259 (Adj)		

(b) Altogether, in the past 3 years about how many firm offers of long term lease financing have you rejected? (Include all rejections of firm offers for each financing.)

Number	_____	Don't know	2
--------	-------	------------	---

<u>No. of rejections reported:</u>	<u>#</u>	<u>%</u>
1	4	12
2-9	12	34
10	11	31
12-30	8	23
<b>Total</b>	<b>35</b>	<b>100</b>

(c) Generally, what were the reasons for turning down firm offers of long term lease financing? (Any or all may be checked)

**# of answers**

(i)	Negotiated a better offer from the same lessor	2
(ii)	Obtained a better offer from another lessor	14
(iii)	Best offer not tolerable	11
(iv)	Rejected for reason other than financing terms	5
(v)	Other (Specify)_____	9
(vi)	Refuse to answer	0

(d) How important would the following factors be in deciding whether to reject a firm offer of long term lease financing?

**Proportion of answers**  
(Adjusted for missing cases)

		<b>Unimportant</b>			<b>Fairly Important</b>		<b>Extremely Important</b>	
		1	2	3	4	5	6	7
(i)	Rental payments too high	4	4	2	6	8	23	52
(ii)	Lease not long enough	13	8	10	16	18	16	20
(iii)	Covenants too restrictive	9	9	18	15	18	18	24
(iv)	Cancellation terms too severe	8	6	4	15	20	18	29
(v)	Lessor participation clause unsuitable	12	10	9	14	12	17	25
(vi)	Personal guarantee required	13	10	10	9	9	14	36
(vii)	Implicit interest rate too high	5	2	2	6	5	22	59
(viii)	Other (Specify)_____	22	11	0	0	0	11	56

7. **Equity Financing** (over one year)

(a) In the past 3 years have you ever rejected

(i) a firm offer of equity financing?

<b>Yes</b>	34 (13%)	<b>No</b>	225 (87%)
<b>No Answer</b>	33 (Adj)		

(ii) more than one firm offer for the same equity financing?

<b>Yes</b>	15 (58%)	<b>No</b>	11 (42%)
<b>No answer</b>	266 (Adj)		

(b) Altogether, in the past 3 years about how many firm offers of equity financing have you rejected? (Include all rejections of firm offers for each financing.)

	<u>Number</u>	<u>Don't know</u>
<u>No. of rejections reported:</u>	<u>#</u>	<u>%</u>
1	13	42
2	6	19
3	7	23
4-10	261	Adj.
<b>Total</b>	<b>292</b>	<b>100</b>
Mean	2.6	
Median	1.9	
Variance	5.5	

(c) Generally, what were the reasons for turning down firm offers of equity financing? (Any or all may be checked)

	<b># of answers</b>
(i) Negotiated a better offer from the same supplier	1
(ii) Obtained a better offer from another supplier	0
(iii) Best offer not tolerable	4
(iv) Rejected for reason other than financing terms	12
(v) Other (Specify) _____	16
(vi) Refuse to answer	0

(d) How important would the following factors be in deciding whether to reject a firm offer of equity financing?

**Proportion of answers**  
(Adjusted for missing cases)

		Unimportant			Fairly Important		Extremely Important	
		1	2	3	4	5	6	7
(i)	Price per share too low	7	1	1	7	6	20	59
(ii)	Amount of financing available	9	6	4	14	12	22	33
(iii)	Control of operations via voting shares	3	1	0	2	5	11	78
(iv)	Suitability of buy-back agreement	11	6	4	10	13	17	41
(v)	Other (Specify) _____	27	0	0	4	4	7	58

8. (a) In the past three years, have lenders or other suppliers of capital ever turned down your request for financing so that you had to go to another source or abandon your plans?

Yes    41 (14%)    No    249    (86%)  
No answer    2 (Adj)

- (b) Please indicate for each refusal, the type of financing sought, the type of supplier approached, the reason (if any) given for the refusal, your own opinion of why you were turned down and how the refusal affected your subsequent operations.

Type of Funding	Episode			
	1	2	3	4
L.T. loan	21	10	1	
S.T. loan	15	6	1	
lease	0			
equity	0			
other	2			
<b>Total</b>	<b>38</b>	<b>16</b>	<b>3</b>	

**Type of Supplier**

bank	28	9	1
trust company	1	3	
finance company	4	1	
gov't agency	3	2	1
other	2		1
<b>Total</b>	<b>38</b>	<b>15</b>	<b>3</b>

Reason given by Supplier

No reason	1		0
Financial position, etc.	20	9	2
other	3	3	1
economic conditions	1		
<b>Total</b>	<b>25</b>	<b>12</b>	<b>3</b>

Your opinion

Don't know	0	0	0
Financial position	6	5	2
Discrimination	6	2	0
other	9	5	1
<b>Total</b>	<b>21</b>	<b>12</b>	<b>3</b>

Outcome of being turned down

Found financing elsewhere	22	5	0
Couldn't expand	6	2	1
Couldn't renovate	0		
Lost sales	1		
Other	9	4	1
<b>Total</b>	<b>38</b>	<b>11</b>	<b>2</b>

9. **Related Services**

(a) Financial institutions (e.g. banks) can provide many "related services" (e.g. payroll accounting and disbursement). Please indicate which of you are using now and which you may consider using in the future.

**# of answers**

<b>Service</b>	<b>Potential Use Now (Check)</b>	<b>Future Use (Check)</b>
(i) Cash flow planning	10	33
(ii) Payroll	34	24
(iii) Data processing	4	21
(iv) Accounting packages for receivables, payables, inventories, etc.	4	17
(v) Credit enquiry services	86	35
(vi) Other (Specify) _____	15	8
_____	4	1
_____	1	2

- (b) Would your firm be interested in purchasing a package of moderate cost personal financial advisory services as a fringe benefit for your employees?

As an additional benefit?	#	%
Yes	42	15
No	242	85
No answer	8	Adj.

In place of some existing benefits?

Yes	6	2
No	259	98
No answer	8	Adj.

#### D. FUTURE FINANCING PLANS

##### 1. (a)

- (i) Does your firm have on hand a budgeted projection of financing needs over the next year or more?

Yes	123 (42%)	No	168 (58%)
No answer	1 (Adj)		

- (ii) How many years does the projection cover?

	N.A.	1	2	3	4	5	6
No. of answers	122	72	18	12	3	15	2
Relative frequency	Adj	59	15	10	3	12	2

- (iii) Who was responsible for preparing this projection?

Senior financial manager	62	50
Other _____	61	50
No answer	169	Adj
<b>Total</b>	<b>169</b>	<b>Adj</b>

- (b) How would you rate your chances of obtaining the funds you require on acceptable terms?

**Percent of Responders in Each Category**

		<b>Virtually certain</b>		<b>50:50 chance</b>			<b>Most Unlikely</b>		<b>Won't Require</b>	<b>No. of Respondents</b>
		1	2	3	4	5	6	7		
(i)	Short debt	68	7	3	7	0	2	4	9	121
(ii)	Long debt (incl. leases)	41	9	5	7	0	3	4	31	121
(iii)	Equity	16	4	1	5	1	0	4	68	114

2. What difficulties do you foresee for your firm if it is unable to obtain funds required on acceptable terms, over your planning period described in the previous question? Check as many answers as applicable for both short and long term external financing.



### No. of Responses

		If can't get external		
		Short term	Long term	Equity
		( 1 year)	Debt	
			( 1 year)	
(i)	Interruption of production or delivery schedules	40	15	2
(ii)	Temporary layoff of workers	43	16	3
(iii)	Long term layoff of workers	24	20	5
(iv)	Couldn't consolidate or fund short term loans	15	10	0
(v)	Reduction in growth of business	71	48	14
(vi)	Postponement of expansion of business	54	50	12
(vii)	Possible insolvency	16	10	2
(vii)	Possible bankruptcy	9	10	2
(ix)	None	5	2	4
(x)	Other (Specify)_____	8	8	2

3. Skip this question if you have already answered #2 above.

(a) If you have not projected your financing requirements over the next year or more, how would you rate your chances of getting financing you may want on acceptable terms over the next three years?

	Virtually certain		50:50 chance			Most Unlikely		N.A.	Total
	1	2	3	4	5	6	7		
No. of answers	96	25	6	17	4	8	11	125	292
Adjusted frequency	58	15	4	10	2	5	7	Adj	100

(b) What difficulties do you foresee for your firm if it is unable to obtain the funds you want on acceptable terms, over the next three years? (Verbatim response)

No. of verbatim responses recorded 143

No. who said nothing 149

**Total 292**

4. (a) Please assess the importance of the following objectives for the business in the next 3 to 5 years as stated or implied by the principal owners or managers.

**Proportion of Responses**  
(Adjusted for missing cases)

		<b>Least Important</b>			<b>Moderately Important</b>			<b>Most Important</b>
		1	2	3	4	5	6	7
(i)	Maintain control and independence	2	3	1	6	7	17	64
(ii)	Growth in sales	2	3	1	14	16	17	46
(iii)	Increase operating efficiency	2	2	2	13	15	22	45
(iv)	Increase profits	0	1	1	11	13	17	57
(v)	Have stable income and work style, perhaps with some sacrifice of potential growth or profits	17	7	12	15	13	15	22
(vi)	Sell out	57	14	7	8	7	3	4
(vii)	Refinance	54	14	7	11	6	4	4
(viii)	Be a good corporate citizen possible at some sacrifice of other objectives	16	7	9	22	14	17	16

(b) Please list here any other objectives that you feel are at least moderately important.

### Not postcoded

5. Approximately what percentage of the firm's voting shares is held by the public? (i.e. people not associated with or related to management or principal shareholders). (Check appropriate range)

	#	%Adj
None (no shares held by the public)	284	98
1 - 49%	5	2
50 - 75%	0	0
76 - 100%	2	0
No answer	1	0
<b>Total</b>	<b>292</b>	<b>100</b>

6. Generally, how important are the following actual or potential problems facing your business?

#### Percent who answered in each category (Adjusted for missing cases)

	Least Important			Moderately Important			Most Important
	1	2	3	4	5	6	7
(a) Marketing effectiveness,(sales force, pricing, promotion, distribution channels)	12	7	3	9	10	17	41
(b) Production (operating costs, operating process, raw materials, technology, product design, etc.)	19	7	5	12	13	15	30
(c) Inflation	7	6	8	16	14	20	29
(d) Government red tape	16	14	11	19	10	8	23
(e) Personnel (employee attitudes, availability of skilled help)	8	9	6	10	13	18	35
(f) Financing (cost, terms availability)	18	11	11	13	12	14	22
(g) Unreliability of essential public services (e.g. postal)	19	17	14	13	12	9	16
(h) Labour relations (laws, standards, unions)	33	17	8	10	9	10	12
(i) Corporate taxes	16	13	14	16	10	13	19
(j) Personal taxes	16	12	11	15	11	13	22
(k) Cost controls; management of inventories and receivables	9	9	6	8	10	22	36
(l) Professional services: cost and availability (lawyers, accountants, etc.)	18	15	19	17	10	10	11

**E. GOVERNMENT ASSISTANCE**

**1. What Federal Government programs in aid of small business are aware of:**

<b>Program</b>	<b>Awareness (times mentioned)</b>
FBDB, CASE	118
SBLA	9
SBDB (bonds)	35
EDB, PAIT	13
Emp. Tax credit	31
Export Dev. Corp.	18
DREE	43
Manpower	51
Other	61

**Total 379**

**Eligibility Awareness**

Yes	261
No	64
Don't know	35

**Total 360**

**Use Made of the Program**

Approached	45
Used	131
Turned down by	17

**Total 193**

**Proportion of eligible firms with any contact**

$$= \frac{193}{261} = 74\%$$

**2. What Provincial Government programs in aid of small business are aware of:**

<b>Awareness Total</b>	<b>138</b>	
Eligible?	Yes	90
	No	20
	Don't Know	23
<b>Total</b>		<b>133</b>

Use in Past:	Approached	16
	Used	47
	Turned down by	6
	<b>Total</b>	<b>69</b>

3. In your opinion what role, if any, should Canadian governments play in assisting small business in Canada? (Verbatim response)

	#	%
More intervention	142	51
Less intervention	82	30
Ambivalent	53	19
No answer	15	Adj.
<b>Total</b>	<b>292</b>	<b>100</b>

**F. OTHER**

1. Do you have any other comments you wish to make concerning this study or on small business financing in Canada in general? (Verbatim response)

	#	%
Generally negative	57	44
Generally positive	20	15
Ambivalent -some of both	53	41
No answer	162	Adj
<b>Total</b>	<b>292</b>	<b>100</b>

**INTERVIEWER'S COMMENTS:**

	#	%
Firm seems well managed	81	51
Other comment	77	49
No comment	134	Adj
<b>Total</b>	<b>292</b>	<b>100</b>

## Appendix B-6

### FOLLOW UP SURVEY

Part I of the appendix compares key statistics derived from the follow up survey with statistics computed from the main survey. Part II tabulates the responses to the follow up survey.

The follow up respondents were definitely smaller, on average, than the main survey respondents, both in terms of sales and number of employees. The two samples were almost identically distributed by industry and the difference in the proportion of respondents with full-time financial managers was negligible.

The statistics in the follow up survey support the two major conclusions of the survey. Only 6% of follow up respondents reported that they usually had not obtained as much financing as they applied for, and only 32% had not **always** obtained as much or more than they applied for. Furthermore, finance was just as convincingly outranked by other problems facing the respondents as it was in the main survey.

The conclusion to be drawn from the follow up survey, then, is that even though some size bias was introduced by the decision to raise the floor sales limits during the field work, the basic conclusions and recommendations of the study were not affected. The one curious inconsistency between the main survey results and the follow up statistics concerns the degree of satisfaction reported with certain financial institutions. Banks were rated quite highly by both groups of respondents. Trust companies and financial corporations, on the other hand, were rated **much** lower by the follow up group than by the main survey group. Without conducting further costly analytical tests, we cannot explain this discrepancy.

## Part I

### Key Statistics for Follow Up Survey Compared with Main Survey

	Survey	Follow Up
<b>Industry</b>	<b>%</b>	<b>%</b>
Wholesale	21	18
Retail	18	23
Manufacturing	22	22
Other	39	37
<b>Total</b>	<b>100</b>	<b>100</b>
<b>Number of Employees</b>		
Mean	28	14.4
Median	12	6.3
<b>Age of Business (years)</b>		
Mean	18	23
Median		19
<b>Sales in 1980 (\$)</b>		
Median	890,000	500,000 approx.
<b>Full-time Financial Manager</b>		
Yes	25%	27%
No	75%	73%
		<b>100%</b>



### Financing experience - could get

Always more	25%
Always as much	43%
Usually as much	26%
Usually not as much	6%
	100%

### Importance of problems facing the business

	Mean		Standard error	
	Survey	Follow up	Survey	Follow up
Marketing	5.1	4.5	.13	.21
Cost controls	5.1	4.5	.12	.21
Inflation	5.0	5.1	.11	.20
Personnel	5.1	4.9	.12	.20
Production	4.6	4.4	.14	.23
Personal taxes	4.2	4.3*	.13	.21*
Financing	4.2	3.7	.13	.21
Corporate taxes	4.1		.12	
Government red tape	4.1	4.1	.13	.22
Public services	3.7	4.5	.12	.20
Professional services	3.6	3.4	.12	.19
Labour relations	3.2	2.8	.13	.19

\*In the follow up survey, corporate and personal taxes were combined in the questionnaire.

### Institutions

### Survey Follow up

Percent of respondents who would approach the following for long-term financing

Bank	77	72
Financial Corporation	26	9
Trust company	27	7
FBDB	30	7

## Part II

### Tabulation of Demographic and Response Data

Person interviewed	#	%
President	100	84
Chief financial officer	1	1
Partner	6	5
Owner	11	9
Other	2	1
<b>Total</b>	<b>130</b>	<b>100</b>

#### Category of non-response in main survey:

	#	%
Too small	2	2
Too busy to participate	29	22
Not interested	46	35
Unable to contact	38	29
Not available	15	12
<b>Total</b>	<b>130</b>	<b>100</b>

# RESPONSE ANALYSIS INDUSTRY BY CITY

		Halifax	St. John	Que. City	Montreal	Toronto	Kitchener	Winnipeg	Saskatoon	Calgary	Vancouver	Row Total
WHOLESALE	count	1	3	2	8	4	0	0	0	4	2	24
	row %	4.2	12.5	8.3	33.3	16.7	0.0	0.0	0.0	16.7	8.3	18.5
	col %	33.3	50.0	25.0	25.8	11.4	0.0	0.0	0.0	23.5	13.3	
RETAIL	count	1	1	2	7	12	1	1	0	3	2	30
	row %	3.3	3.3	6.7	23.3	40.0	3.3	3.3	0.0	10.0	6.7	23.1
	col %	33.3	16.7	25.0	22.6	34.3	25.0	12.5	0.0	17.6	13.3	
MANUFACTURING	count	0	2	1	8	5	0	3	1	3	5	28
	row %	0.0	7.1	3.6	28.6	17.9	0.0	10.7	3.6	10.7	17.9	21.5
	col %	0.0	33.3	12.5	25.8	14.3	0.0	37.5	33.3	17.6	33.3	
OTHER	count	1	0	3	8	14	3	4	2	7	6	48
	row %	2.1	0.0	6.3	16.7	29.2	6.3	8.3	4.2	14.6	12.5	36.9
	col %	33.3	0.0	37.5	25.8	40.0	75.0	50.0	66.7	41.2	40.0	
COLUMN TOTAL		3	6	8	31	35	4	8	3	17	15	130
		2.3	4.6	6.2	23.8	26.9	3.1	6.2	2.3	13.1	11.5	100.0

		<b>Sales</b>			
		<b>Respondent</b>		<b>D&amp;B</b>	
		<b>#</b>	<b>%</b>		<b>%</b>
\$0 -	99,999	4			
100,000 -	199,999	20	20	25	19
200,000 -	499,999	33	28	43	33
500,000 -	999,999	27	23	30	23
1,000,000 -	9,999,999	32	27	31	24
29,000,000 -	29,999,999	2			
30,000,000 or more		2	3	1	1
<b>Total</b>		<b>120</b>	<b>100</b>	<b>130</b>	<b>100</b>
No answer		10		-	
<b>Total</b>		<b>130</b>		<b>130</b>	

**D&B Sales - alternate tabulation corresponding with universe limits:**

<b>Sales range</b>	<b>#</b>	<b>%</b>
\$0 - 1,999,999	116	89
2,000,000 - 2,999,999	7	6
3,000,000 - 4,999,999	3	2
5,000,000 - 14,999,999	3	2
15,000,000 and over	1	1
<b>Total</b>	<b>130</b>	<b>100</b>

**Age of Business**

<b>Quartile</b>	<b>Reported upper limit for quartile:</b>	
	<b>Respondent</b>	<b>D&amp;B</b>
1	8 years	7 years
2	18	15
3	32	23
4	133	43
Youngest	1	1
Oldest	133	43
Median	18.5	15
Mean	22.6	16.5
Standard error of mean	-	0.96

Quartile	Number of Employees per D&B Upper limit
1	4
2	6
3	15
4	96
Least	1
Most	96
Median	6.3
Mean	14.4
Standard error of mean	1.71

2. Do you have a full-time specialized financial manager?

	#	%
Yes	35	27
No	91	70
Not stated	4	3
	130	100

3. Importance of sources of advice for financial policy-making  
(1 equals least, 7 equals most important).

Source	Mean	Standard Error	Median
Internal financial manager	3.26	.226	2.0
Other internal	2.92	.197	2.1
Banker	4.11	.216	4.2
Public accountant	4.29	.210	4.4
Other external	2.50	.184	1.4
Major shareholder not active in business	1.75	.153	1.2

4. Sources of supply for long-term debt or long-term lease financing.  
Percent of respondents who would approach sources:

	%
Credit union/caisse	4
Bank	72
FBDB	7
Financial corporation	9
Friends & relatives	1
Investment dealer	0
Life insurance company	2
Own shareholders	1
Pension funds	0
Trust company	7
Venture capitalist	0

5. Satisfaction with service provided by institutions:

	Banks	Financial Corporations	Trust Companies	Other
1. Very poorly	11	22	22	24
2.	3	2	1	1
3.	8	2	1	1
4. Adequately	21	7	5	0
5.	7	1	2	2
6.	8	4	2	2
7. Very Well	50	12	4	3
<b>Total</b>	<b>108</b>	<b>50</b>	<b>41</b>	<b>36</b>

No. of responses "less than adequate" = 101  
% 101/235 43%

6. Importance of problems facing the business (1 equals least, 7 equals most important).

Problem	Mean	Standard Error	Median
Marketing	4.45	0.210	4.45
Production	4.35	0.227	4.72
Inflation	5.12	0.198	6.36
Government red tape	4.11	0.216	4.12
Personnel	4.89	0.196	5.31
Finance	3.72	0.208	3.90
Public services	4.49	0.204	4.50
Labour relations	2.75	0.191	1.46
Taxation - corporate and personal	4.33	0.205	4.33
Cost controls	4.52	0.210	4.61
Professional services	3.38	0.194	3.53

7. Financing experience.

Category	#	%
1. Could always have got more	27	25
2. Always got as much as applied for	47	43
3. Usually got as much as applied for	28	26
4. Usually did not get as much as applied for	7	6
<b>Total</b>	<b>109</b>	<b>100</b>
5. Other - never borrowed, don't know, etc.	21	
	<b>130</b>	

## **Addendum to Appendix B-6**

### **Non-Response Survey**

#### **Study Methodology**

The sample in this study was provided to Thompson Lightstone (T & L) by Facsym Research. Respondents were those who had been part of the sample designed for the Survey of Small Business Managers but who had, in fact, not participated in the previous study. This sample listing was provided to Thompson Lightstone in pre-randomized order. The sample list was composed of Dun & Bradstreet cards listing the name, address, phone number, etc. of various businesses. The designated respondent in each company was the chief executive officer whose name was listed in this card.

Note that T & L obtained the Dun's Market Identifiers for non-respondents directly from Woods Gordon. Facsym personnel were never in possession of the data, so that the confidentiality of responses and respondents was scrupulously preserved throughout the study.

The study was conducted from Thompson Lightstone's various central location facilities across the country. Interviewing was conducted from September 1 to 8, 1981.

Each company was contacted up to four times (initial call plus three callbacks) in attempting to interview the designated respondent. Callbacks were made at the beginning of each days work before any initial calls were made to new companies, in order to ensure a random sampling of companies. This procedure was followed until the required quota of completed interviews was achieved centre. A complete record of contacts follows.



**RESPONDENT INFORMATION** (from sample listings)

Mr. [ ]  
Ms. [ ]

TITLE: \_\_\_\_\_

COMPANY: \_\_\_\_\_

PHONE # [ ] [ ] [ ] - [ ] [ ] [ ] SEQUENCE # [ ] [ ] [ ]

**RESPONDENT NUMBER**

CA-1

[ ] [ ] [ ] [ ] [ ]

2  
3  
4  
5

**INTERVIEW RECORD**

	INITIAL CALL	1ST CALLBACK	2ND CALLBACK	3RD CALLBACK
DATE: _____				
TIME: _____				
No answer	1	1	1	1
Busy	2	2	2	2
Respondent not available	3	3	3	3
Number disconnected/out of service	4	4	4	4
Respondent refusal	5	5	5	5
Language problem	6	6	6	6
Mid-interview termination (Q# _____)	7	7	7	7
Completed interview	8	8	8	8
Other: [SPECIFY] _____	9	9	9	9
Callback Appointment: Date: _____ Time: _____				
Date: _____ Time: _____				
Interview Time: Time Started: _____ [ ] a.m. [ ] p.m.				
Time Ended: _____ [ ] a.m. [ ] p.m.				

I hereby certify that this interview was conducted following the questionnaire and according to the instructions for this study, and that the answers recorded are as given to me by this respondent. I also realize that a proportion of my work will be checked back with the respondent for verification.

INTERVIEWER'S SIGNATURE: \_\_\_\_\_

**DATA COLLECTION:**

Checked: By: \_\_\_\_\_ Date: \_\_\_\_\_  
Verified: By: \_\_\_\_\_ Date: \_\_\_\_\_

**LOCATION OF INTERVIEW:**

Halifax ---- 01 Kitchener ---- 06  
St. John ---- 02 Winnipeg ---- 07  
Montreal ---- 03 Saskatoon ---- 08  
Quebec City ---- 04 Calgary ---- 09  
Toronto ---- 05 Vancouver ---- 10

**SUPERVISOR:**

If you have checked each page,  
please initial here: \_\_\_\_\_

NON-RESPONSE ANALYSIS  
TL #12581

THOMPSON LIGHTSTONE  
& COMPANY LIMITED

Good \_\_\_\_\_! May I please speak to \_\_\_\_\_ [NAME ON FRONT PAGE].

NO SUBSTITUTIONS ALLOWED  
ARRANGE CALLBACK, IF NECESSARY

I am \_\_\_\_\_ of Thompson Lightstone & Company Limited, an independent marketing research firm. We are conducting a survey today about business financing and I'd like to ask you a few questions. The survey will only take about five minutes and your participation is important to the overall success of the survey. Please be assured that any answers you give will never be linked with your name or the name of your company. They will only be combined with answers given by other firms in order to better understand the needs of businesses in the financial marketplace.

IF RESPONDENT REFUSES,  
ASK QUESTION 'A' -  
OTHERWISE SKIP TO QU. 1

A. Why do you not wish to participate in the survey?

(Ca. 1)

	11/12
	12/14
	15/16

THANK RESPONDENT AND TERMINATE

1. Please describe your major product or service?

	13/18
	14/12
	17/22

2. Do you have a full-time specialized financial manager?

Yes ----- 1 25  
No ----- 2

3. How I am going to read you a list of possible sources of financial advice.  
[READ LIST]

How important is each of these sources of advice for financial policy making in your firm? Please use a seven-point scale, where ONE stands for 'NOT AT ALL IMPORTANT'; FOUR stands for 'MODERATELY IMPORTANT'; and SEVEN stands for 'EXTREMELY IMPORTANT'. [READ LIST ONE AT A TIME]

	NOT AT ALL IMPORTANT			MODERATELY IMPORTANT			EXTREMELY IMPORTANT	(C-1)
1) Internal financial manager ----	1	2	3	4	5	6	7	21
2) Other internal sources -----	1	2	3	4	5	6	7	25
3) Banker -----	1	2	3	4	5	6	7	26
4) Public accountant -----	1	2	3	4	5	6	7	27
5) Other external sources -----	1	2	3	4	5	6	7	28
6) Major shareholder not active in the business -----	1	2	3	4	5	6	7	29

4. If your firm needed long-term loan or long-term lease financing today, what potential sources of supply would you approach? [DO NOT READ LIST]

Calisse Populaire/Credit Union -----	01	30731
Chartered Bank -----	02	31732
Federal Business Development Bank -----	03	34733
Financial Company (e.g. Finance Co.) -----	04	34733
Friends/Relatives -----	05	34735
Investment dealer -----	06	35736
Life Insurance Company -----	07	
Own Shareholders -----	08	
Pension Funds -----	09	
Trust Company -----	10	
Venture Capitalist -----	11	
Other [SPECIFY] _____		

- 5a) All things considered, how well do you feel your firm's financing needs have been served by the institutions you have dealt with over the past three years? For instance, did you get the KIND of financing you wanted? WHEN you wanted it? On REASONABLE terms?

First of all, I would like you to rate CHARTERED BANKS. Please use a seven-point scale where ONE stands for served 'VERY POORLY', FOUR stands for served 'ADEQUATELY', and SEVEN stands for served 'VERY WELL'.

	VERY POORLY			ADE- QUATELY			(NOT DEALT WELL WITH)	
a) Chartered Banks -----	1	2	3	4	5	6	7	40
b) Finance or financial companies --	1	2	3	4	5	6	7	41
c) Trust companies -----	1	2	3	4	5	6	7	42
d) Other institutions such as credit unions -----	1	2	3	4	5	6	7	43

- 5b) Using the same scale, please rate how well FINANCE OR FINANCIAL COMPANIES have served your firm's financing needs.

[REPEAT FOR TRUST COMPANIES (5c) and for OTHER INSTITUTIONS SUCH AS CREDIT UNIONS (5d)].

6. Now I am going to read a list of actual or potential problems that businesses such as yours may face. [READ LIST]

Now, I'd like you to tell me how IMPORTANT each of these items is in terms of actual or potential problems that your business faces. Please use a seven-point scale where ONE stands for 'LEAST IMPORTANT' and SEVEN stands for 'MOST IMPORTANT'. [READ LIST ONE AT A TIME]

	LEAST IMPORTANT				MOST IMPORTANT				
a) Marketing effectiveness, such as sales force, pricing, promotion, products, distribution channels -----	1	2	3	4	5	6	7	<input checked="" type="checkbox"/>	(6.1)
b) Production, including operating costs, operating process, raw materials, technology, product design, etc. -----	1	2	3	4	5	6	7	<input checked="" type="checkbox"/>	
c) Inflation -----	1	2	3	4	5	6	7	<input checked="" type="checkbox"/>	
d) Government red tape -----	1	2	3	4	5	6	7	<input checked="" type="checkbox"/>	
e) Personnel, including employee attitudes, availability of skilled help --	1	2	3	4	5	6	7	<input checked="" type="checkbox"/>	
f) Financing, including cost, terms, availability -----	1	2	3	4	5	6	7	<input checked="" type="checkbox"/>	
g) Unreliability of essential public services, such as postal -----	1	2	3	4	5	6	7	<input checked="" type="checkbox"/>	
h) Labour relations, such as laws, standards, unions -----	1	2	3	4	5	6	7	<input checked="" type="checkbox"/>	
i) Taxes, including corporate and personal -----	1	2	3	4	5	6	7	<input checked="" type="checkbox"/>	
j) Cost controls, such as management of inventories and receivables -----	1	2	3	4	5	6	7	<input checked="" type="checkbox"/>	
k) Professional services, such as cost and availability, lawyers, accountants, etc. ----	1	2	3	4	5	6	7	<input checked="" type="checkbox"/>	

7. In general, which ONE of the following four statements, most accurately describes your firm's recent financing experience, that is, during the past three years? [READ LIST]

You could always have obtained more funds than you applied for, on terms that you would have accepted ----- ☒ 1

You always obtained as much as you applied for ----- 2

You usually obtained as much as you applied for ----- 3

You usually did not obtain as much as you applied for ----- 4

# DEMOGRAPHICS

Finally, just a few more questions about your firm to help us classify your answers with those in similar types of companies.

(Cd.1)

A. When was your business started? → 19 \_\_\_\_  
[PROBE FOR ACTUAL YEAR]

54  
55

B. Which of the following categories best describes your firm's annual sales and assets for 1980? [READ LIST]

- Less than \$100,000 ----- 1
- \$100,000 to less than \$200,000 ----- 2
- \$200,000 to less than \$500,000 ----- 3
- \$500,000 to less than \$1 million ----- 4
- \$1 million to less than \$10 million ---- 5
- \$10 million to less than \$30 million --- 6
- \$30 million or over ----- 7

56

C. Would you classify your firm as ... [READ LIST]

- An independent company ----- 1
- An affiliate or subsidiary  
of another company ----- 2
- OR A franchise ----- 3

57

THANK YOU

NON-RESPONSE  
SURVEY TL #12581

RESPONDENT NUMBER:

DUN & BRADSTREET INFORMATION

Primary SIC Code: (First 3 numbers)

Secondary SIC Code: (First 3 numbers)  
(If Applicable)

Sales Volume: Amount: \$

Number Of Employees:  
(Total in Canada)

Start-Up Date: 19

Location: (First 3 letters  
of postal code  
only)

Title Of Person Interviewed:

- President (PR) ----- 1
- Chief Financial Officer  
(If different from  
President) (CEO/CFO) ----- 2
- Partner (PT) ----- 3
- Owner (ONR) ----- 4
- Chairman Of The Board (CHB) ----- 5
- Other -----

Previous Response Category:

- Too small ----- 1
- Too busy to participate ----- 2
- Not interested ----- 3
- Unable to contact ----- 4
- Interested but not available ----- 5

THOMPSON LIGHTSTONE  
& COMPANY LIMITED

(CA-1)

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TL #12581

NON-RESPONSE SURVEY

RECORD OF CONTACTS

	HALIFAX	ST. JOHN'S	MONTREAL	QUEBEC CITY	TORONTO	KITCH- ENER	WINNI- PEG	SASK- ATOON	CALGARY	VAN- COUVER	TOTAL CANADA
Interviewed	3	6	31	8	35	4	8	3	17	15	130
Refused because too busy	3	3	7	1	29	4	5	-	2	6	60
Refused because not interested	2	2	7	-	31	-	1	-	1	7	51
Refused because too confidential	1	2	3	-	13	2	6	-	4	5	36
Refused/other reasons	2	-	8	-	8	-	2	-	1	5	26
Respondent not available/ (in meeting/on vacation)	4	20	39	10	61	4	13	6	34	51	242
Language problem	-	1	2	-	6	-	-	-	-	5	14
Mid-Interview termination	-	1	-	-	15	-	-	-	2	1	19
No contact (busy signal/no answer)	1	4	11	3	30	4	18	11	31	14	127
Number disconnected/ out of business/no such person/residence	7	10	24	-	41	7	12	2	22	25	150
<u>TOTAL DIALLED</u>	<u>23</u>	<u>49</u>	<u>132</u>	<u>22</u>	<u>269</u>	<u>25</u>	<u>65</u>	<u>22</u>	<u>114</u>	<u>134</u>	<u>855</u>
<u>RESPONSE RATE</u> (# interviewed ÷ # dialled)	13%	12%	23%	36%	13%	16%	12%	14%	15%	11%	15%

## **Appendix C**

### **1. FINANCIAL AND TRUST COMPANY INTERVIEW SURVEY QUESTIONNAIRES**

#### **Appendix C - 1 (i) Senior Executives**

#### **QUESTIONNAIRE FOR SENIOR EXECUTIVES OF NBFIs**

##### **Sections:**

- A. Current Involvement**
- B. Source of Funds**
- C. Policy Considerations**
- D. Perception of Small Business Market**
- E. Future Trends**

##### **Information Identification**

**Name of Organization:**

**Head Office:**

**Name of Interviewee:**

**Position:**

**Location:**

**Telephone:**

**Name of Interviewer:**

**Date:**



**A. CURRENT INVOLVEMENT**

1. What type of financing for small business (incorporated up to \$25 million sales) is your institution currently providing?

	Current Annual Volume	
<b>Short Term Lending</b>		
Line of Credit	_____	_____
Demand Loans	_____	_____
Building Loans	_____	_____
<b>Long Term Lending</b>		
Term Loans:		
1 - 3 years	_____	_____
4 - 7 years	_____	_____
8 - 10 years	_____	_____
Above 10 years	_____	_____
Mortgage Loans	_____	_____
Equipment Loans	_____	_____
Inventory Loans	_____	_____
<b>Equity Capital</b>		
Preferred	_____	_____
Common	_____	_____
<b>Leasing</b>	_____	_____
<b>Factoring</b>	_____	_____
<b>Other</b>	_____	_____

2. Within the above activities, do you specialize in any particular areas?  
(Please designate)

3. What other financial services do you provide for small business?

Deposit Accounts	_____
Term Deposits	_____
Credit Cards	_____
Cash Management	_____
Payroll Processing	_____
Pension Fund Management	_____
Insurance Services	_____
Consulting	_____
Counselling	_____
Management Seminars	_____
Other (Specify)	_____

4. What regions of the country are you currently servicing in the small business sector?

	Main Centres	Other	No. of Offices
Maritimes	_____	_____	_____
Quebec	_____	_____	_____
Ontario	_____	_____	_____
Mid-West	_____	_____	_____
Alberta	_____	_____	_____
British Columbia	_____	_____	_____

5. What procedures do you use to develop new loans in the small business area?

6. Comments:

**B. SOURCES OF FUNDS**

1. Are you affiliated with other financial corporations active in small business financing?

Name	Main Activity	Size of Interest
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

2. How does your organization finance its lending activities? (If applicable)

		%
Demand Deposits	_____	_____
Term Deposits	_____	_____
Corporate Paper	_____	_____
Bond Issue	_____	_____
Equity:		
Preferred	_____	_____
Common	_____	_____
Parent		
Debt	_____	_____
Equity	_____	_____
Other (Specify)	_____	_____

3. What is your average cost of funds?

Below Prime	_____
Prime	_____
+ 1%	_____
+ 2%	_____
Other (Specify)	_____

4. What spread do you require on loans to small business?

Cost	+ 1%	_____
	+ 2%	_____
	+ 3%	_____
	+ 4%	_____
	+ 5%	_____
Above	+ 5%	_____

Comments:

5. Other Comments:

C. POLICY CONSIDERATIONS

1. What factors are the most critical in determining your corporate policy on small business financing? (Rank by importance)

Demand for Loans	_____
Fund Availability	_____
Maturity Matching	_____
Cost of Money	_____
Available Spread	_____
Risk Levels	_____
Experienced Personnel	_____
Administrative Costs	_____
Regulatory Restrictions	_____
Government Programs	_____
Other (Specify)	_____

2. For the following institutions, what are the competitive advantages/dis-advantages which affect your participation in small business financing?

- (i) Chartered Banks:
- (ii) Foreign Bank Affiliates:
- (iii) Financial Corporations:
- (iv) Venture Capital Firms:
- (v) Trust Companies:
- (vi) Insurance Companies:
- (vii) Pension Funds:

3. Do government regulations affect your level of participation in small business financing? Yes \_\_\_\_\_ No \_\_\_\_\_  
If yes, which ones?

Investments

- Eligibility \_\_\_\_\_
- Size Restrictions \_\_\_\_\_
- Distribution Requirements \_\_\_\_\_

Liabilities

- Deposit Taking \_\_\_\_\_
- Leverage \_\_\_\_\_
- Other Security Restrictions \_\_\_\_\_

Liability/Asset

- Liquidity Reserves \_\_\_\_\_
- Maturity Matching \_\_\_\_\_

Taxation Rules

- Capital Allowances \_\_\_\_\_
- Reserves for Losses \_\_\_\_\_
- Other Write-off Provisions \_\_\_\_\_

Other (Specify) \_\_\_\_\_

Elaborate on each of the above as applicable.

4. How do the following government institutions and programs affect your lending activities to small business?

- (i) Federal Business Development Bank:
- (ii) Small Business Loan Act:
- (iii) Enterprise Development Program:
- (iv) Small Business Development Bonds:
- (v) DREE Grants:
- (vi) Provincial Loan Guarantee Program:

5. Comments:

**D. PERCEPTION OF SMALL BUSINESS MARKET**

1. In small business lending, what size range of loans would be of interest to you?

\$ 0 - \$ 20,000	_____
20,000 - 100,000	_____
100,000 - 500,000	_____
500,000 - 1,000,000	_____
None of the above	_____

2. Do you believe the financing needs of small business are being adequately met? Why?
3. What "gaps" do you believe to exist in the supply of financing to small business?
4. Could small business financing be accomplished within the private sector alone? Why?
5. Other comments:

E. **FUTURE TRENDS**

1. In what types of small business financing would your institution be interested in expanding?

**POTENTIAL ANNUAL  
VOLUME by 1985**

**Short Term Lending**

Line of Credit	_____	_____
Demand Loans	_____	_____
Building Loans	_____	_____

**Long Term Lending**

Term Loans:	_____	_____
1 - 3 years	_____	_____
4 - 7 years	_____	_____
8 - 10 years	_____	_____
Above 10 years	_____	_____

Mortgage Loans	_____	_____
----------------	-------	-------

Equipment Loans	_____	_____
-----------------	-------	-------

Inventory Loans	_____	_____
-----------------	-------	-------

**Equity Capital**

Preferred	_____	_____
Common	_____	_____

Leasing	_____	_____
---------	-------	-------

Factoring	_____	_____
-----------	-------	-------

Other	_____	_____
-------	-------	-------

- E.2. What areas of small business financing would you consider in the future?

Start-up      Development      Expansion      Turnaround      Buy-out      Mature

Manufacturing

Transportation

Construction

Trade

Services

Other

Comments:

3. In which government program would you consider future participation?

**POTENTIAL ANNUAL  
VOLUME by 1985**

FBDB Loan Guarantees	_____
Small Business Loan Act	_____
Enterprise Development Program Loans	_____
Guarantees	_____
Small Business Development Bond	_____
Provincial Loan Guarantee Programs	_____
Other (Specify)	_____
	_____

4. What types of new government programs would be most useful in attracting your involvement?
5. Are there changes in government regulations which are essential to increase your participation in small business financing?
6. What trends in your industry will affect your involvement in small business financing in the future?
7. Other comments:



## Appendix C - 1 (ii) Loan Officers

### SURVEY OF LOAN OFFICERS QUESTIONNAIRE

Organization:

Types of financing:	Handled by Interviewee	Covered in Interview*
1. Short term loans		
2. Long term equipment loans		
3. Long term equipment leases		
4. Long term mortgages		
5. Long term real estate leases		
6. "Term" loans		

\*A separate form (Section A to F, see Appendix D) is to be completed for type of financing covered.

#### Information Identification

Name of Interviewee:

Position:

Location:

Telephone:

Market Territory:

Served by:

Loan officers with credit signing authority: (No.)

Market representatives (no signing authority): (No.)

#### Coverage

1. A SMALL BUSINESS is one that is incorporated or unincorporated, independent, with sales below \$25 million, including sales of any subsidiaries.
2. For mortgages, only loans to small owner occupants are included, i.e., not loans to small construction and/or development companies, nor loans to lessors.
3. For equipment loans, loans to both small end users and small dealers are included.

A. ACTIVITY

1. In the past 12 months, approximately how many applications from small business for this type of financing

- (a) did you process? \_\_\_\_\_  
(b) did you accept? \_\_\_\_\_

(Include in your numbers written proposals made by financial brokers and packagers that were presented to you.)

2. Of the applications processed, what was the approximate distribution of sources?

%

- (i) Direct solicitation by your company \_\_\_\_\_  
(ii) Capital goods dealers \_\_\_\_\_  
(iii) Construction firms or developers \_\_\_\_\_  
(iv) Financial brokers and packagers \_\_\_\_\_  
(v) Referrals from other lenders (include split loans) \_\_\_\_\_  
(vi) Direct initiative from the applicant (include applicant's lawyer or accountant) \_\_\_\_\_  
(vii) Others (Specify) \_\_\_\_\_

3. Of the applications processed, what was the approximate distribution of their purpose?

%

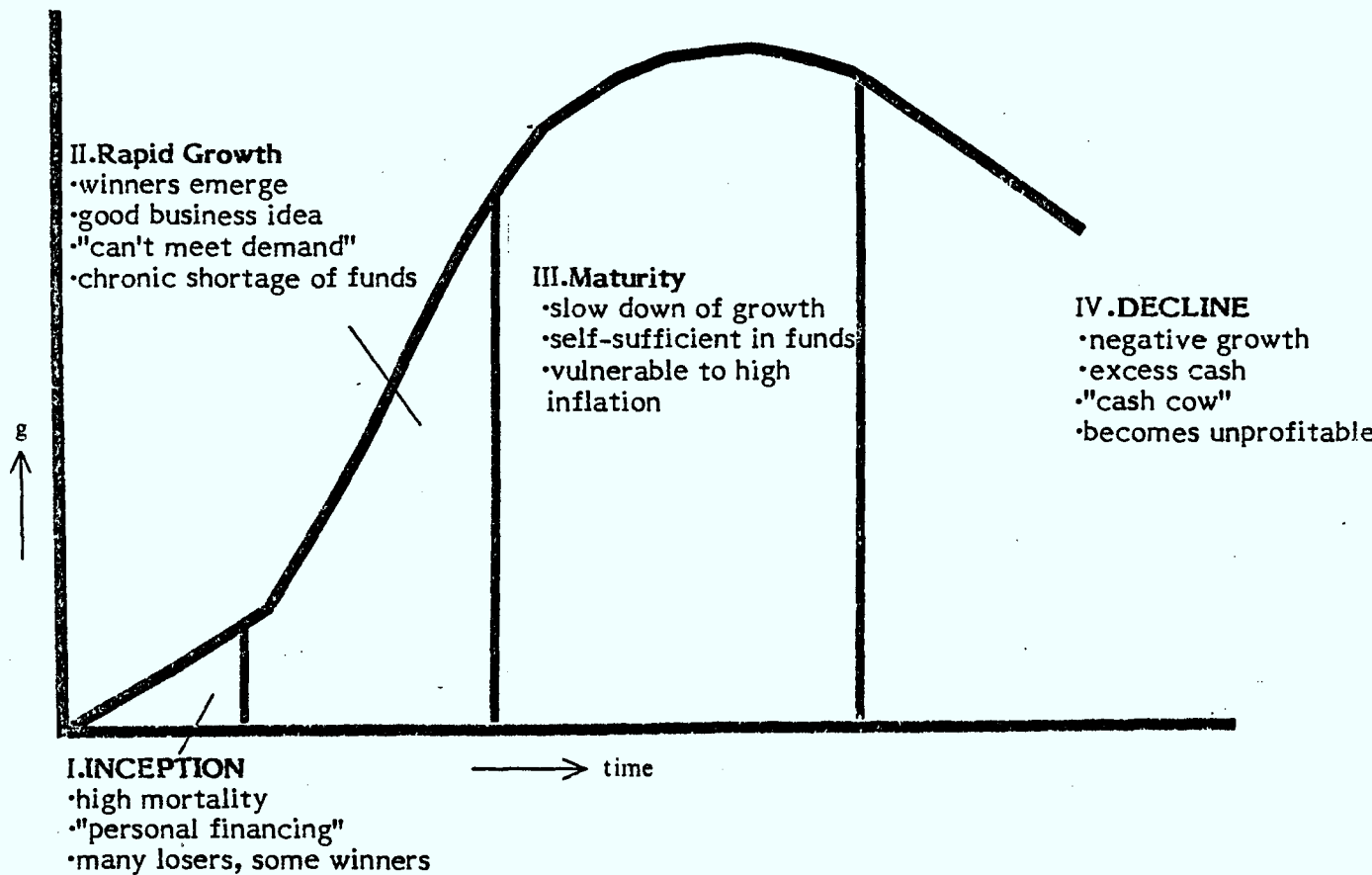
- (i) Working capital needs \_\_\_\_\_  
(ii) Equipment purchase \_\_\_\_\_  
(iii) Property/plant expansion \_\_\_\_\_  
(iv) Property/plant acquisition \_\_\_\_\_  
(v) Refinancing \_\_\_\_\_  
(vi) Acquiring another business \_\_\_\_\_  
(vii) Other (Specify) \_\_\_\_\_

100

4. The diagram below depicts the life cycle of a small business in four stages. Of the applications processed, what was their approximate distribution by stage in the firm's 'life cycle'?

(i)	Inception	_____
(ii)	Rapid growth	_____
(iii)	Maturity	_____
(iv)	Decline	_____

100



5. Outline briefly, the main steps in processing an application for this type of financing, beginning with the initial contact by phone or other. (Use back of page if necessary).

**B. BORROWERS**

1. What are the basic characteristics of the borrower that you look for in making this type of financing available to a small business in this territory?
2. What are the considerations that typically make applications for this type of financing unacceptable to your company in this territory?

**C. TERMS AND CONDITIONS**

1. What are the usual terms and conditions your company offered in the past three months to small business applicants in your standard, highest and lowest risk categories for this type of financing in this territory?

	Standard Risk	Highest Risk	Lowest Risk
(i) Amount of loan			
(ii) Term to maturity			
(iii) Repayment basis			
(iv) Prepayment conditions			
(v) Fees, charges, discounts			
(vi) Stated interest rate, or rental rate as % of capital value			
(vii) Loan-to-security ratio			
(viii) Covenants			
(ix) Type of legal instrument			
(x) Other (specify) _____			

2. Which terms and conditions of this type of financing do you find are usually the hardest for the small business borrower and the lender to agree upon and which are the easiest?

	Standard Risk	Highest Risk	Lowest Risk
(i)	Amount of loan		
(ii)	Term to maturity		
(iii)	Repayment basis		
(iv)	Prepayment conditions		
(v)	Fees, charges, discounts		
(vi)	Stated interest rate, or rental rate as % of capital value		
(vii)	Loan-to-security ratio		
(viii)	Covenants		
(ix)	Type of legal instrument		
(x)	Other (specify) _____		

**D. THE LOCAL MARKET**

1. For this type of lending in this territory what are the names of your major competitors?
2. List in order of importance (in your opinion) the major activities in competing for this type of financing in this territory, i.e. activities to maintain your market share or increase it at the expense of competitors. (E.g. advertising, personal contact, quick service, interest rate negotiable, other terms negotiable.)

**E. GOVERNMENT IMPACTS**

1. What government regulations have the greatest impact upon your small business financing activities of this type of this territory? Explain. (Federal and provincial)

2. What government assistance programs for small business have the greatest impact on your company's small business financing activities of this type in this territory? Explain. (Federal and provincial)
3. What effects do easy and tight money conditions have upon your company's business activity of this type in this territory?

F. POSSIBILITIES FOR IMPROVEMENTS

1. What suggestions can you make to improve this type of private financing for small business in this territory?
2. What suggestions can you make that would be helpful to small businesses seeking this type of financing in this territory?

## APPENDIX C - 2

### FORM FOR SURVEY OF FINANCIAL AND TRUST COMPANY FINANCING FILES

#### Financing Application Survey DESIGN #4

Form No.       /      /      /      /      /        
 Lender       /      /      /      /      /        
 Office       /      /      /      /      /        
 File No.       /      /      /      /      /      

#### I. Borrower Identification

1. Location: City:       /      /      /      /      /        
 Prov.:       /      /      /      /      /        
 Postal Code:       /      /      /      /      /        
 2. a) S.I.C.:       /      /      /      /      /        
 b) Type of Business:       /      /      /      /      /      

Vancouver 0  
 Calgary 1  
 Saskatoon 2  
 Winnipeg 3  
 Kitchener 4  
 Toronto 5  
 Montreal 6  
 Quebec City 7  
 St. John (N.B.) 8  
 Halifax 9

0 for new 3. Type of Customer: New or Repeat       /      /      /      /      /        
 1 for repeat

\$ 000's outstanding to lender before loan       /      /      /      /      /      

#### II. The Application

0 for no 1. Lender: Loan Approved       /      /      /      /      /        
 1 for yes Date of Offer       /      /      /      /      /      

0 for no 2. Borrower: Accepted       /      /      /      /      /        
 1 for yes  
 2 for undecided

#### III. Terms and Conditions

Amount (\$ 000's)		Amount (\$ 000's)	
1. Purposes:		a) Working Capital	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>
a) Refinancing	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>	f) Paydown Bankloan	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>
b) Loan Renewal	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>	g) Lease of Equipment	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>
c) Purchase of Equip.	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>	h) Improvements	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>
d) Purchase of land and Building	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>	i) Other	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>
Amount (\$ 000's)		Amount (\$ 000's)	
2. Form:		e) Trust Deed	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>
a) Mortgage	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>	f) Lease	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>
b) Debenture	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>	g) Commercial Pledge	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>
c) Chattel Mortgage	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>	h) Conditional Sale	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>
d) SDB Debenture	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>	i) Other	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>
Amount (\$ 000's)		Amount (\$ 000's)	
3. a) Total Amount (in case of lease, use value of equipment as per contract)	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>		
b) Actual cost of equipment to lessor	<u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u> / <u>      </u>		

## APPENDIX C - 2 (continued)

4. Borrower's Costs:

	Basis	and	Increment	Effective Yield (at time)
a) Interest Rate: 1) / / / / / / / / / /	172		180	183
11) / / / / / / / / / /	189		197	200
Basis Value (at time) / / / / / / / /	206		210	
Royal Bank Prime (at time) / / / / / / / /	211		215	
0 for no	111) In arrears or not? / /			
1 for yes	214			
b) For Term Loan:				
0 for no	1) Negotiating Fee (Yes or No) / /			
1 for yes	217			
0 for no	Refundable or not / /			
1 for yes	218			
	Amount / / / / / / / /			
	219			
	Due / / / / / / / /			
	224 25 26 27 28 29			
0 for no	11) Standby Fees (Yes or No) / /			
1 for yes	230			
	Percent of undisbursed loan / / / /			
	231 232			
	Details _____			
	_____			
0 for no	111) Cancellation fees (Yes or No) / /			
1 for yes	233			
	Structure _____			
	_____			
0 for no	1v) Prepayment fee (Yes or No) / /			
1 for yes	234			
	Structure _____			
	_____			
0 for no	v) Other fee (Yes or No) / /			
1 for yes	235			
	Structure _____			
	_____			
0 for no	vi) Participation feature (Yes or No) / /			
1 for yes	236			
	Structure _____			
	_____			
0 for neither	c) For Lease			
1 for option	1) Purchase Option or Obligation / /			
2 for obligation	237			
	Months from Date of Lease		Cost	
	a) / / / / / / / /		/ / / / / / / /	
	238	240	241	242
	b) / / / / / / / /		/ / / / / / / /	
	247	249	250	253
	11) CCA Rate / / / /			
	254			
0 for no	111) Expenses Included / /			
1 for yes	255			
	Details _____			
	_____			



**APPENDIX C - 2 (continued)**

5. a) Payback term of loan (in months)  $\frac{\quad}{259} - \frac{\quad}{261}$

b) Amortization period (in months)  $\frac{\quad}{262} / \frac{\quad}{264}$

6. a) **Payments**

0 for blended

1 for straight line 1) Basis  $\frac{\quad}{265}$

If not blended,      ii) If blended, what is the interest rate for the given schedule  
or not rate given,    illustration   /   /   /   /  
enter 0.                          268         269

iii) Number of months between payments  $\frac{\quad}{270}$ 

iv) Payment schedule:

If "x" months are  
skipped, write in  
"x" payments of / 0 /.

/271/\_/\_/ payments of /273/\_/\_/\_/\_/\_/\_/\_/279/

/\_\_\_/\_\_\_/ payments of /\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/

/\_\_\_/\_\_\_/ payments of /\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/

/ / payments of / /

/\_\_\_/\_\_\_/ payments of /\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/

107  
116 /\_\_\_/\_\_\_/ payments of 107 116 /\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/\_\_\_/ 116 116

Enter 0 for no  
Enter 1 for yes

Are there any other details / 125 /

**Other details:**

## 7. Collateral

Mkt. Sale Value

**Forced Sale Value**

a) Current assets 326 - - - - -  
b) Real estate 331 - - - - -

c) Mach./equip.	336				
d) Financial	341				

e) Other	346					
f) Total	351					

g) Prior Charges	356								
h) Net	361								

\_\_\_\_\_

(-)g	Prior Charges	396											396							
h)	Net	361											401							

\_\_\_\_\_

j) Completion Costs \$/\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_  
406 410

k) Terminal Value \$ /    /    /    /    /  
                            411                  413

0 for no  
1 for yes

8. Floating Charge: (Yes or No?) /      /  
416

Type

**9. Guarantors:**

1) Number  $\frac{\quad}{417} \frac{\quad}{\quad}$

No.	Amount (\$ 000's)	No.	Amount (\$ 000's)
-----	-------------------	-----	-------------------

11) Corporate:  
Secured    /\_/\_/    /\_/\_/\_/\_/\_/    Unsecured    /\_/\_/    /\_/\_/\_/\_/\_/

419 420 421 422 423 424 425 426

111) Personal: / / / / /  
Secured 429 430 431 Unsecured 434 435 436

**APPENDIX C - 2 (continued)**

10. Covenants: If the type of covenant is question is specified in the contract, mark this with a "1". If not mark with a "0".

a) W.C.  $\frac{\quad}{435}$  b) D/E Ratio  $\frac{\quad}{440}$   
c) Subordinate Debt  $\frac{\quad}{441}$  d) Voting control  $\frac{\quad}{442}$   
e) Dividends/bonuses  $\frac{\quad}{443}$  f) L.O.C.  $\frac{\quad}{444}$   
g) Financial Statements: Annual Audited  $\frac{\quad}{445}$  Annual Unaudited  $\frac{\quad}{446}$   
Interim Unaudited  $\frac{\quad}{447}$   
h) Shareholder Loan Payback  $\frac{\quad}{448}$

### Applicant's Financial Statements

11. Latest a) For year ending / DD / MM / YY /  
449 454  
b) Audited / 635 /  
0 for no  
1 for yes

12. Balance Sheet: (\$ 000's)

Assets	Recent Year		Pro Forma	
a) Current	656		686	
b) Land & Buildings	661		691	
c) Mach. & Equip.	666		696	
d) Other	671		701	
e) Less: Deprec.	676		706	
f) Total	681		711	
Liabilities	Recent Year		Pro Forma	
g) Current	514		521	
h) Long Term Debt	521		566	
i) Capitalized Leases	526		551	
j) Deferred Taxes	531		556	
k) Net Worth	536		561	

13. Cash Flow; Income Statement (for year ending) / 50 / 51 / 52 / 53 / 54 / 55 / 56 / 57 / 58 / 59 / 60 / 61 / 62 / 63 / 64 / 65 / 66 / 67 / 68 / 69 / 70 / 71 / 72 / 73 / 74 / 75 / 76 / 77 / 78 / 79 / 80 / 81 / 82 / 83 / 84 / 85 / 86 / 87 / 88 / 89 / 90 / 91 / 92 / 93 / 94 / 95 / 96 / 97 / 98 / 99 / 00 / 01 / 02 / 03 / 04 / 05 / 06 / 07 / 08 / 09 / 10 / 11 / 12 / 13 / 14 / 15 / 16 / 17 / 18 / 19 / 20 / 21 / 22 / 23 / 24 / 25 / 26 / 27 / 28 / 29 / 30 / 31 / 32 / 33 / 34 / 35 / 36 / 37 / 38 / 39 / 40 / 41 / 42 / 43 / 44 / 45 / 46 / 47 / 48 / 49 / 50 / 51 / 52 / 53 / 54 / 55 / 56 / 57 / 58 / 59 / 60 / 61 / 62 / 63 / 64 / 65 / 66 / 67 / 68 / 69 / 70 / 71 / 72 / 73 / 74 / 75 / 76 / 77 / 78 / 79 / 80 / 81 / 82 / 83 / 84 / 85 / 86 / 87 / 88 / 89 / 90 / 91 / 92 / 93 / 94 / 95 / 96 / 97 / 98 / 99 / 00 / 01 / 02 / 03 / 04 / 05 / 06 / 07 / 08 / 09 / 10 / 11 / 12 / 13 / 14 / 15 / 16 / 17 / 18 / 19 / 20 / 21 / 22 / 23 / 24 / 25 / 26 / 27 / 28 / 29 / 30 / 31 / 32 / 33 / 34 / 35 / 36 / 37 / 38 / 39 / 40 / 41 / 42 / 43 / 44 / 45 / 46 / 47 / 48 / 49 / 50 / 51 / 52 / 53 / 54 / 55 / 56 / 57 / 58 / 59 / 60 / 61 / 62 / 63 / 64 / 65 / 66 / 67 / 68 / 69 / 70 / 71 / 72 / 73 / 74 / 75 / 76 / 77 / 78 / 79 / 80 / 81 / 82 / 83 / 84 / 85 / 86 / 87 / 88 / 89 / 90 / 91 / 92 / 93 / 94 / 95 / 96 / 97 / 98 / 99 / 00 / 01 / 02 / 03 / 04 / 05 / 06 / 07 / 08 / 09 / 10 / 11 / 12 / 13 / 14 / 15 / 16 / 17 / 18 / 19 / 20 / 21 / 22 / 23 / 24 / 25 / 26 / 27 / 28 / 29 / 30 / 31 / 32 / 33 / 34 / 35 / 36 / 37 / 38 / 39 / 40 / 41 / 42 / 43 / 44 / 45 / 46 / 47 / 48 / 49 / 50 / 51 / 52 / 53 / 54 / 55 / 56 / 57 / 58 / 59 / 60 / 61 / 62 / 63 / 64 / 65 / 66 / 67 / 68 / 69 / 70 / 71 / 72 / 73 / 74 / 75 / 76 / 77 / 78 / 79 / 80 / 81 / 82 / 83 / 84 / 85 / 86 / 87 / 88 / 89 / 90 / 91 / 92 / 93 / 94 / 95 / 96 / 97 / 98 / 99 / 00 / 01 / 02 / 03 / 04 / 05 / 06 / 07 / 08 / 09 / 10 / 11 / 12 / 13 / 14 / 15 / 16 / 17 / 18 / 19 / 20 / 21 / 22 / 23 / 24 / 25 / 26 / 27 / 28 / 29 / 30 / 31 / 32 / 33 / 34 / 35 / 36 / 37 / 38 / 39 / 40 / 41 / 42 / 43 / 44 / 45 / 46 / 47 / 48 / 49 / 50 / 51 / 52 / 53 / 54 / 55 / 56 / 57 / 58 / 59 / 60 / 61 / 62 / 63 / 64 / 65 / 66 / 67 / 68 / 69 / 70 / 71 / 72 / 73 / 74 / 75 / 76 / 77 / 78 / 79 / 80 / 81 / 82 / 83 / 84 / 85 / 86 / 87 / 88 / 89 / 90 / 91 / 92 / 93 / 94 / 95 / 96 / 97 / 98 / 99 / 00 / 01 / 02 /

	Recent Year ( \$ 000's )	366	571
		Pro	forma
Net Revenue	572	398	
Debt Service	578	604	
Depreciation	583	609	
Current taxes	586	614	
Net Income (after taxes)	599	619	

14. Past Financial record summarized a) for  $\frac{\quad}{620}$  years, b) of which net income was positive in  $\frac{\quad}{81}$  years.

**APPENDIX C - 2 (continued)**

## 15. Assessment of Management

**Keypunch Note:** Place the circled row value in the appropriate field (as designated by the first column).

	Not Considered	Weakness	Identified But Not Evaluated	Secondary Strength	Primary Strength	
a) Past performance (ie. trend)	622	1	2	3	4	5
b) Experience with lender	623	1	2	3	4	5
c) Financial condition	624	1	2	3	4	5
i) W.C.	625	1	2	3	4	5
ii) D/E ratio	626	1	2	3	4	5
iii) Cash flow	627	1	2	3	4	5
d) Security base	628	1	2	3	4	5
e) Personnel	629	1	2	3	4	5
f) Perf. of subsidiaries/divisions	630	1	2	3	4	5
g) Strategic plans & forecasts	631	1	2	3	4	5
h) Industry outlook	632	1	2	3	4	5
j) Equipment resale value	633	1	2	3	4	5
k) Term of lease	634	1	2	3	4	5
l) Protection in case of early liquidation	635	1	2	3	4	5
m) Other	636	1	2	3	4	5
n) Other	637	1	2	3	4	5

**Details:** \_\_\_\_\_

16. Dunn & Bradstreet Rating:    /   /   /   /   /

17. Cash Flow: 1) Recent year /\_/\_/\_/\_/\_/\_/  
2) Pro forma /\_/\_/\_/\_/\_/\_/

0" for 18. Independent or  
ubddiary Subsidiary /\_/\_/

1" for  
ndependent

## **APPENDIX D**

### **CREDIT UNION INTERVIEW SURVEY QUESTIONNAIRES**

#### **Appendix D (i) Credit Union Central and Cooperatives' Senior Executives**

#### **QUESTIONNAIRE FOR SENIOR EXECUTIVES OF CREDIT UNION CENTRALS AND COOPERATIVES**

##### **Sections:**

- A. Policy Considerations**
- B. Perception of Small Business Market**
- C. Future Trends**

##### **Information Identification**

**Name of Organization:**

**Head Office:**

**Name of Interviewee:**

**Position:**

**Location:**

**Telephone:**

**Name of Interviewer:**

**Date:**

**A. POLICY CONSIDERATON**

1. What factors are the most critical in determining your policy on small business financing? (Rank by Importance)

Demand for Loans	_____
Funds availability	_____
Maturity matching	_____
Cost of money	_____
Available spread	_____
Risk levels	_____
Experienced personnel	_____
Administrative costs	_____
Regulatory restrictions	_____
Government programs	_____
Other _____	_____
_____	_____
_____	_____

2. What major advantages and disadvantages would result from an increase in lending to small business by Credit Unions in your province?

**Advantages:**

**Disadvantages:**

3. For the following institutions what are the competitive advantages/disadvantages which affect your participation in small business financing?

**Chartered Banks**

**Financial Corporation**

**Trust Companies**

4. How do the following government institutions and programs affect your lending activities to small business?

**Federal Business Development Bank**  
**Small Business Loan Act**  
**Enterprise Development Program**  
**Small Business Development Bonds**  
**DREE Grants**  
**Provincial Loan Guarantee Programs**

**B. PERCEPTION OF SMALL BUSINESS MARKET**

1. In small business lending, what size range of loans would be of interest to you in your province?

	<b>Credit Unions</b>	<b>Central</b>
\$ 0 - \$ 20,000	_____	_____
20,000 - 100,000	_____	_____
100,000 - 500,000	_____	_____
500,000 - 1,000,000	_____	_____
None of the above	_____	_____

2. Do you believe the financing needs of small business are being adequately met? Why?
3. What "gaps" do you believe to exist in the supply of financing of small business and cooperatives?
4. Can small business and cooperative financing be accomplished entirely by non-government institutions? Why?
5. Other comments

**C. FUTURE TRENDS**

1. In what types of small business financing would your institution be interested in expanding?

	POTENTIAL ANNUAL VOLUME by 1985	
	Local CU's	Central
<b>Short Term Lending</b>		
Line of Credit	_____	_____
Demand Loans	_____	_____
Building Loans	_____	_____
<b>Long Term Lending</b>		
Term Loans:		
1 - 3 years	_____	_____
4 - 7 years	_____	_____
8 - 10 years	_____	_____
Above 10 years	_____	_____
Mortgage Loans	_____	_____
Equipment Loans	_____	_____
Inventory Loans	_____	_____
<b>Equity Capital</b>		
Preferred	_____	_____
Common	_____	_____
<b>Leasing</b>	_____	_____
<b>Factoring</b>	_____	_____
<b>Other</b>	_____	_____

2. In which government program would you consider future participation?

**POTENTIAL ANNUAL  
VOLUME by 1985**

FBDB Loan Guarantees	_____
Small Business Loan Act	_____
Enterprise Development Program Loans	_____
Guarantees	_____
Small Business Development Bond	_____
Provincial Loan Guarantee Programs	_____
Other (Specify)	_____
	_____

3. What types of new government programs would be most useful in attracting your involvement?
4. Are there changes in government regulations which are essential to increase your participation in small business financing?
5. What trends in your industry will affect your involvement in small business financing in the future?
6. Other comments:



**Appendix D (ii) Credit Union Central and Cooperatives' Loan Officers**

**QUESTIONNAIRE FOR BUSINESS LOANS OFFICERS  
OF CREDIT UNION CENTRALS AND COOPERATIVES**

**Information Identification**

**Name of Organization:**

**Head Office:**

**Name of Interviewee:**

**Position:**

**Location:**

**Telephone:**

**Name of Interviewer:**

**Date:**

A. **CURRENT INVOLVEMENT**

1. What type of financing for small business (incorporated up to \$25 million sales) is your institution currently providing?

	Local CUs	Current Annual Volume Central
<b>Short Term Lending</b>		
Line of Credit	_____	_____
Demand Loans	_____	_____
Building Loans	_____	_____
<b>Long Term Lending</b>		
Term Loans:	_____	_____
1 - 3 years	_____	_____
4 - 7 years	_____	_____
8 - 10 years	_____	_____
Above 10 years	_____	_____
Mortgage Loans	_____	_____
Equipment Loans	_____	_____
Inventory Loans	_____	_____
<b>Equity Capital</b>		
Preferred	_____	_____
Common	_____	_____
<b>Leasing</b>	_____	_____
<b>Factoring</b>	_____	_____
<b>Other</b>	_____	_____

2. Within the above activities, do you specialize in any particular areas?  
(Please designate)

3. What other financial services do you provide for small business and cooperatives?

	Local CU's	Central
Deposit Accounts	_____	_____
Term Deposits	_____	_____
Credit Cards	_____	_____
Cash Management	_____	_____
Payroll Processing	_____	_____
Pension Fund Management	_____	_____
Insurance Services	_____	_____
Consulting	_____	_____
Counselling	_____	_____
Management Seminars	_____	_____
Other (Specify)	_____	_____

4. What constraints does the Provincial Credit Union Act and regulation place on the level of Credit Union participation in small business financing?

- (a) Maximum proportion of assets \_\_\_\_\_ %
- (b) Maximum proportion in single loans \_\_\_\_\_ %
- (c) Maximum absolute amount of loan \_\_\_\_\_
- (d) Restrictions on security for a loan \_\_\_\_\_
- (e) Restriction on term of loan \_\_\_\_\_
- (f) Membership requirements \_\_\_\_\_
- (g) Approval requirements \_\_\_\_\_
- (h) Other \_\_\_\_\_

5. Describe the procedure in processing loans to small business or cooperatives in your province?
6. Which credit unions in the province are most important in the area of small business financing?
7. What procedures do you use to obtain new borrowers in the small business area?

8. Does the central in your province make loans directly to cooperatives or small businesses?
9. Are there any arrangements in your central for pooling the risk on larger loans to small business?
10. Other comments:

**B. SOURCES OF FUNDS**

1. How does your organization finance its lending activities? (If applicable)

	Credit union	%	Central
Demand Deposits	_____		_____
Term Deposits	_____		_____
Loans From Central	_____		_____
Share Savings	_____		_____
Capital	_____		_____
Other	_____		_____

2. Does business lending change the mixture of sources of funds used to finance loans? How?
3. What is your average cost of funds? How do you calculate it?
4. How is the interest rate on loans determined?

**Appendix D (iii) Credit Union and Caisses Populaires' Loan Officers**

**STUDY OF SMALL BUSINESS FINANCING  
BY CREDIT UNIONS AND CAISSES POPULAIRES**

**SURVEY OF LOAN OFFICERS**

Information Identification

Name of Interviewee:

Position:

Location:

Telephone:

Bond of Association and principal geographical area:

Served by:

Loan officers with credit signing authority: \_\_\_\_\_ (No.)

INTERVIEWER:

Coverage (To be read to the interviewee, as applicable.)

1. A SMALL BUSINESS is one that is incorporated or unincorporated, independent, with sales below \$25 million, including sales of any subsidiaries.
2. For mortgages, only loans to small owner occupants are included, i.e., not loans to small construction and/or development companies, nor loans to lessors.
3. For equipment loans, loans to both small end users and small dealers are included.

**A. TYPES OF LOANS AUTHORIZED AND MADE**

1. What types of loans to business is your credit union authorized to make?  
What types of loans does it make?

	Authorized	Makes
(a) Short-term loans	_____	_____
(b) Long-term equipment loans	_____	_____
(c) Long-term equipment leases	_____	_____
(d) Long-term mortgages	_____	_____
(e) Long-term R.E. leases	_____	_____
(f) "Term" loans	_____	_____
(g) Other (specify)	_____	_____
_____		
_____		

2. To what types of borrowers is your credit union authorized to make business loans? To what types of borrowers does it lend?

	Authorized	Makes
(a) Sole proprietorship	_____	_____
(b) Partnership	_____	_____
(c) Corporation - Non-co-op	_____	_____
(d) Corporation - Co-op	_____	_____
(e) Municipality	_____	_____
(f) Other (specify)	_____	_____

**B. ACTIVITY**

1. In the past 12 months, approximately how many **applications** from small business

- |     |                  |       |
|-----|------------------|-------|
| (a) | did you process? | _____ |
| (b) | did you accept?  | _____ |

(Include in your numbers written proposals made by financial brokers and packagers that were presented to you.)

2. Of the applications processed, what was the approximate distribution of sources?

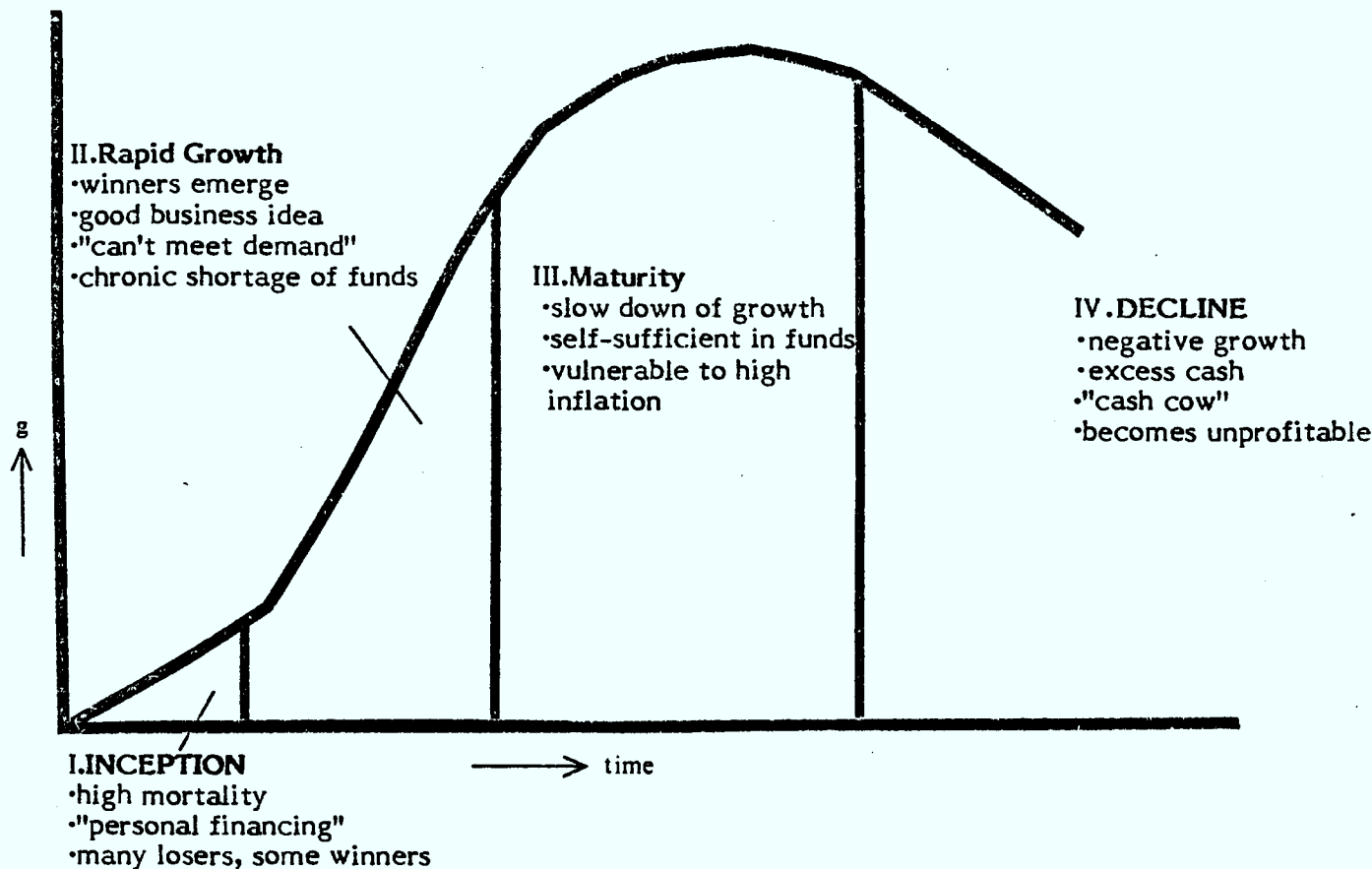
		%
(i)	Direct solicitation by your credit union	_____
(ii)	Capital goods dealers	_____
(iii)	Construction firms or developers	_____
(iv)	Referral from credit union central	_____
(v)	Referrals from other credit unions	_____
(vi)	Direct initiative from the applicant (include applicant's lawyer or accountant)	_____
(vii)	Other (Specify) _____	_____

3. Of the applications processed, what was the approximate distribution of their purpose?

		%
(i)	Working capital or current asset needs	_____
(ii)	Equipment purchase	_____
(iii)	Property/plant expansion	_____
(iv)	Property/plant acquisition	_____
(v)	Refinancing	_____
(vi)	Acquiring another business	_____
(vii)	Other (Specify) _____	_____
		100

4. The diagram below depicts the life cycle of a small business in four stages. Of the applications for small business financing that you processed, what was their approximate distribution by stage?

		% Processed	% Accepted
(i)	Inception	_____	_____
(ii)	Rapid growth	_____	_____
(iii)	Maturity	_____	_____
(iv)	Decline	_____	_____
		100	100





5. What is the most common type of financing your credit union provides to small business?
6. Outline briefly, the main steps in processing an application for your most common type of financing, beginning with the initial contact by phone or other.

**C. BORROWERS**

1. What are the basic characteristics of the borrower that you look for in making your most common type of financing available to a small business in this territory?
2. What are the considerations that typically make applications for this type of financing unacceptable to your credit union?

**D. TERMS AND CONDITIONS**

1. What were the usual terms and conditions your credit union offered in the past three months to small business applicants in your standard, highest and lowest risk categories for the most common type of financing you provided in this territory?

	Lowest Risk	Standard Risk	Highest Risk
(i) Amount of loan			
(ii) Term to maturity			
(iii) Repayment basis			
(iv) Prepayment conditions			
(v) (a) Fees, charges, discounts (b) Rebates			
(vi) Stated interest rate, or rental rate as % of capital value			
(vii) Loan-to-security ratio			
(viii) Covenants			
(ix) Type of legal instrument			
(x) Other (specify) _____			

2. Which terms and conditions of this type of financing do you find are usually the hardest for the small business borrower and the lender to agree upon and which are the easiest?

Terms	Hardest	Easiest
(i) Amount of loan		
(ii) Term to maturity		
(iii) Repayment basis		
(iv) Prepayment conditions		
(v) (a) Fees, charges, discounts (b) Rebates		
(vi) Stated interest rate, or rental rate as % of capital value		
(vii) Loan-to-security ratio		
(viii) Covenants		
(ix) Type of legal instrument		
(x) Other (specify) <hr/>		

**E. THE LOCAL MARKET**

1. For this type of lending in this territory what are the names of your major competitors?
2. List in order of importance (in your opinion) the major activities in competing for this type of financing in this territory, i.e. activities to maintain your market share or increase it at the expense of competitors. (E.g. advertising, personal contact, quick service, interest rate negotiable, other terms negotiable.)

**F. BUSINESS RESTRICTIONS**

1. What restrictions, if any, does your credit union place on small business lending by by-laws or policy, other than the restrictions in the Credit Union Act?
2. What government regulations (Federal and Provincial), other than the Credit Union Act, have an impact upon your small business financing activities?
3. What government assistance programs for small business financing have the greatest impact on your credit union's small business financing activities of this type in this territory? Explain. (Federal and provincial)
4. What effects do easy and tight money conditions have upon your credit union's business activity of this type in this territory?

**G. FUTURE PLANS**

1. Why does your credit union make loans to small business? What are the advantages and disadvantages of these loans?
2. What do you expect will happen to the level of small business financing provided by your credit union in the next 5 years? What proportion of your assets do you expect will be invested in small business loans?

## Appendix E

### QUESTIONNAIRE FOR FOREIGN BANK AFFILIATES

#### Information Identification

Name of Organization:

Head Office:

Parent Corporation:

Name of Interviewee:

Position:

Location:

Telephone:

Name of Interviewer:

Date:

#### Coverage

1. A SMALL BUSINESS is one that is incorporated or unincorporated, independent, with sales below \$25 million, including sales of any subsidiaries.
2. For mortgages, only loans to small owner occupants are included, i.e., not loans to small construction and/or development companies, nor loans to lessors.
3. For equipment loans, loans to both small end users and small dealers are included.

A. OVERALL INVOLVEMENT

1. What type of financing for small business is your institution currently providing?

**Current % Dist.**

**Short Term Lending**

**Long Term Lending**

Term Loans	_____
Mortgage Loans	_____
Equipment Loans	_____
Inventory Loans	_____

**Equity Capital**

Leasing	_____
---------	-------

Factoring	_____
-----------	-------

Other	_____
-------	-------

2. Within the above activities, do you specialize in any particular areas?  
(Please designate)

3. What other financial services do you provide for small business?

Deposit Accounts	_____
Term Deposits	_____
Credit Cards	_____
Cash Management	_____
Payroll Processing	_____
Pension Fund Management	_____
Insurance Services	_____
Consulting	_____
Counselling	_____
Management Seminars	_____
Other (Specify)	_____

4. What regions of the country are you currently servicing in the small business sector?

	Main Centres	Other	No. of Offices
Maritimes	_____	_____	_____
Quebec	_____	_____	_____
Ontario	_____	_____	_____
Mid-West	_____	_____	_____
Alberta	_____	_____	_____
British Columbia	_____	_____	_____

**B. TYPE OF INVOLVEMENT IN SMALL BUSINESS FINANCING**

1. In the past 12 months, approximately how many applications from small business for this type of financing

- (a) did you process? \_\_\_\_\_  
 (b) did you accept? \_\_\_\_\_

(Include in your numbers written proposals made by financial brokers and packagers that were presented to you.)

2. Of the applications processed, what was the approximate distribution of sources?

	%
(i) Direct solicitation by your company	_____
(ii) Direct initiative from applicant (including applicant's lawyer or accountant)	_____
(iii) Deferrals (capital goods dealers, developers, brokers, etc.)	_____
(iv) Others (Specify) _____	_____

3. Of the applications processed, what was the approximate distribution of their purpose?

	%
(i) Working capital needs	_____
(ii) Equipment purchase	_____
(iii) Property/plant expansion	_____
(iv) Property/plant acquisition	_____
(v) Refinancing	_____
(vi) Acquiring another business	_____
(vii) Other (Specify) _____	_____

4. Of the applications for small business financing that you processed, what was their approximate distribution by stage in the firm's 'life cycle?'

(i)	Inception	_____
(ii)	Rapid growth	_____
(iii)	Maturity	_____
(iv)	Decline	_____

5. What are the basic characteristics of the borrower that you look for in making this type of financing available to a small business?
6. What are the considerations that typically make applications for this type of financing unacceptable to your company?
7. For this type of lending, what institutions are your major competitors?
8. List in order of importance, the major activities in competing for this type of financing. i.e. activities necessary to maintain your market share or increase it at the expense of competitors. (e.g. advertising, personal contact, quick service, interest rate negotiable, other terms negotiable).
9. What are the major differences between the terms of a loan to a company in your standard risk category and your highest risk category?

### C. SOURCES OF FUNDS

1. How does your organization finance its lending activities? (If applicable)

		%
Demand Deposits	_____	_____
Term Deposits	_____	_____
Corporate Paper	_____	_____
Bond Issue	_____	_____
Equity:		
Preferred	_____	_____
Common	_____	_____
Parent		
Debt	_____	_____
Equity	_____	_____
Other (Specify)	_____	_____

C.2. Are your liabilities guaranteed by your parent corporation?

3. What is the currency denomination of funds raised?

	%
Canadian dollar	_____
U.S. dollar	_____
Other	_____
Total	100%

4. What is your organization's attitude towards foreign exchange risk? Do you

- (a) Match up foreign currency assets and liabilities?
- (b) Hedge any not exposed positions?
- (c) Ignore foreign exchange risk?

5. What effects do easy and tight money conditions in the Canadian and foreign money markets have on your company's business activity in this type of lending.

6. What is your average cost of funds?

Below Prime	_____
Prime	_____
+ 1%	_____
+ 2%	_____
Other (Specify)	_____

7. What spread do you require on loans to small business?

Cost	+ 1%	_____
	+ 2%	_____
	+ 3%	_____
	+ 4%	_____
	+ 5%	_____
Above	+ 5%	_____

Comments:



**D. REGULATORY ENVIRONMENT**

**I. EXISTING (Pre-Bank Act)**

**D.I. 1. Which of the following types of government regulations affect your level of participation in small business financing?**

Investments	
Eligibility	_____
Size Restrictions	_____
Distribution Requirements	_____
Liabilities	
Deposit Taking	_____
Leverage Limits	_____
Other Security Restrictions	_____
Liability/Asset	
Liquidity Reserves	_____
Maturity Matching	_____
Taxation Rules	
Capital Allowances	_____
Reserves for Losses	_____
Other Write-off Provisions	_____
Other (Specify)	_____

Elaborate on each of the above as applicable.

**2. How do the following government institutions and programs affect your lending activities to small business?**

- (i) Federal Business Development Bank:
- (ii) Small Business Loan Act:
- (iii) Enterprise Development Program:
- (iv) Small Business Development Bonds:
- (v) DREE Grants:
- (vi) Provincial Loan Guarantee Program:

D. II POST BANK ACT

Considering the Foreign Bank affiliates as a group.

- D.II. 1. What are the major provisions in the new Bank Act that will affect lending operations and how is lending to small businesses likely to be affected?
2. What are the major provisions in the new Bank Act affecting the supply and cost of funds to the FBAs? Does this change the competitive picture of the FBA's and if so against whom?
3. Do you foresee any geographical shifts in the operation of FBAs with the passage of the Bank Act (i.e. removal of 5 branch limit)?
4. With respect to your own institution, do you see any fundamental change in your ability and desire to service small business financing needs as a result of the new Bank Act?

E. IMPROVEMENTS IN SMALL BUSINESS FINANCING

1. In small business lending, what size range of loans would be of interest to you?

\$ 0 - \$ 20,000	_____
20,000 - 100,000	_____
100,000 - 500,000	_____
500,000 - 1,000,000	_____
None of the above	_____

2. Do you believe the financing needs of small business are being adequately met? Why?
3. What "gaps" do you believe to exist in the supply of financing to small businesses?
4. Is government involvement necessary in small business financing. If so, why?

E.5. In which government program would you consider future participation?

**POTENTIAL ANNUAL  
VOLUME (by 1985)**

FBDB Loan Guarantees	_____
Small Business Loan Act	_____
Enterprise Development Program Loans	_____
Small Business Development Bond	_____
Provincial Loan Guarantee Programs (Specify)	_____
Other (Specify)	_____

6. What types of new government programs would be most useful in attracting your involvement?
7. Are there changes in government regulations which are essential to increase your participation in small business financing?

## APPENDIX F

### SYNOPSIS OF SELECTED PROVISIONS OF ACTS AND REGULATIONS AFFECTING PARTICIPATION BY FINANCIAL CORPORATIONS, TRUST COMPANIES, AND CREDIT UNIONS IN SMALL BUSINESS FINANCING

by

Jamie Poapst, John Hastings and Joan Arnold<sup>1</sup>

This synopsis includes selected provisions in three areas. These are borrower protection, regulation of sponsoring NBFIs, and two federal government programs - the Federal Business Development Bank and the Small Business Loans Act. The principal source of information for all but credit union lending was is CCH publications. For credit unions, there was direct reference to the provincial acts and regulations. This was supplemented in places by reference to procedure manuals and official policy statements. Interviews of selected officers of sponsoring NBFIs and federal government officials helped the search.

#### I BORROWER PROTECTION

1) Interest Act (R.S.C. 1970, c. I-18)

For an unincorporated real estate mortgage borrower the Act provides that principal payable after five years from the date of the mortgage, together with interest due plus three months' interest in lieu of notice, can be paid off in full, irrespective of the term of the mortgage (sec 10).

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<sup>1</sup> The material on credit unions was prepared by Joan Arnold. It was subject to minor editing in keeping with the orientation of the study. Errors caused by editing of course are the responsibility of the editor, in this case the project director. All other material in the chapter was prepared by Poapst and Hastings.

For an unincorporated real estate mortgage borrower the Act provides that where payments are on a sinking fund or blended payment plan, "or on any plan that involves an allowance for interest on stipulated repayments" the mortgage must contain a statement which shows the amount of principal owing and the interest payable thereon (calculated appropriately), or "no interest whatever shall be chargeable..." (sec. 6).

2) Quebec: Consumer Protection Act (S.Q. 1978, C. 9)

Defines a consumer as any natural person, except a merchant; a merchant is defined to include any person extending credit during the course of his business.

A consumer can void a contract for loans of money or credit within two days of contracting, and all costs of restitution are borne by the merchant. If during the contract the consumer makes a complaint concerning a possible discrepancy in his account, the merchant must reply within 60 days, or forfeit any claim to accrued interest.

A consumer who defaults on a credit payment has a 30 day grace period to remedy the condition. If he has already paid at least one-half the total of the credit obligation and the down payment, the merchant requires permission of the court to repossess.

There is provision for a maximum interest rate or credit charge that can be imposed under credit contracts.

Penalties can be levied for offences under the Act. For a corporation the range is \$1,000 to \$50,000 for a first offence, and \$2,000 to \$100,000 and/or six month's imprisonment for a second offence within two years.

3) Choice of method of recovery, purchase of goods financing Alberta, British Columbia, Newfoundland, and Chattel Mortgages in British Columbia

Under the Conditional Sales Act (R.S.A. 1970, c. 61 as amended; R.S.N. Nfld., c. 56, as amended), and the Sales of Goods on Condition Act (R.S.B.C. 1979, c. 373, as amended) the seller may enforce his right to recover the proportion of the purchase price owing to him either by seizure of the goods through appropriate procedure, or by action against the buyer of the goods for the money owing, but not both. The same choice must be made by a grantee under the Chattel Mortgage Act (R.S.B.C. 1979, c. 48).

4) Wage and salary priority in claims on execution debtors, Alberta, British Columbia, and Manitoba

Employees of an execution debtor at or within one month before (in B.C. no time is specified) seizure under writ of execution may file claims for wages and salary. Claimants are entitled to payment of up to three months' wages and salary from money realized through the execution in priority over the claims of other creditors, and thereafter share pro rata with other creditors for any of their residual claims, for any of the balance of proceeds remaining in the sheriff's hands.

The Execution Creditors Act (R.S.A. 1970, c. 128, as amended).  
Court Order Enforcement Act (R.S.B.C. 1979, c. 75).  
The Executions Act (R.S.M. 1970, c. E160, as amended).

5) Business and business-type goods exempt from seizure under provincial Execution Acts and similar provincial laws, and for which exemptions hold under the federal Bankruptcy Act (Chap. B-3, R.S.C. 1970, as amended)

- a) ALBERTA, The Exemptions Act (R.S.A. 1970, c. 129)
  - "Automobile to value of \$2,000, tractor or truck necessary to business."
  - "Tools, implements and equipment necessary for debtor's trade or profession to value of \$5,000."
- b) BRITISH COLUMBIA, Court Order Enforcement Act (R.S.B.C. 1979, c. 75, as amended)
  - "Chattels and goods to value of \$2,000 where personal property has been seized."
- c) MANITOBA, The Executions Act (R.S.M. 1970, c.76/E160)
  - "Tools and agricultural implements used in trade to the value of \$2,500."
- d) NEW BRUNSWICK, The Memorials and Executions Act (R.S.N.B. 1973, c.M-9)
  - "Tools ordinarily used in the debtor's occupation, not exceeding \$6,500 in value; motor vehicle valued at not more than \$3,000 if required for debtor's occupation."
- e) ONTARIO, The Execution Act (R.S.O. 1970, c.152)
  - "Tools and instruments used by debtor in his trade to value not exceeding \$2,000."
- f) SASKATCHEWAN, The Exemptions Act (R.S.S. 1978, c. E-14)
  - "Tools and equipment necessary to the practice of the debtor's trade, to a value of \$2,000."

## II REGULATION OF LENDERS

### Federal

- 1) RoyNat; other financial corporations  
These companies are regulated by the federal Investment Companies Act (S.C. 1970-71-72. c. 33, as amended S.C. 1977, c. 28). The Act defines an investment company residually. In effect it is a company which carries on the business of investment but is not a company regulated under the Bank Act, Quebec Savings Banks Act, the Canadian and British Insurance Companies Act, the Trust Companies Act, the Loan Companies Act, or the Co-operative Credit Associations Act. Nor can it be an underwriter, broker, or dealer in securities. It is required to have more than 40% of its assets in "loans, purchases, or improvements", and more than 25% of its debt plus paid-up capital plus surplus in the form of debt. Beyond this material regulations of its activities are few. It has access to CDIC as a lender of last resort.
- 2) Trust Companies Act (R.S.C. 1970, c. T-16, as amended by S.C. 1974-75-76, c. 7; S.C. 1976-77, c.28; S.C. 1980, c. 40)
  - A) Guaranteed funds: principal provisions for investment in business enterprises.
    - a) Loans secured by real estate or leaseholds up to 75% of the value of the real estate less prior indebtedness; higher if the excess is insured by a government agency or federally registered private insurer.
    - b) Bonds, debentures and other evidences of indebtedness of a corporation incorporated in Canada
      - i) secured by a mortgage of one or more types of its fixed assets, or its financial investments, or
      - ii) fully secured by a statutory charge on real estate or plant and equipment used in the transaction of its business if interest has been paid regularly for a period of at least 10 years immediately preceding investment, or
      - iii) whose preferred or common shares are eligible investments, or
      - iv) with earnings in the past five years totalling at least 10 times total annual interest requirements on long-term debt, and in any four of the five years equalling at least 1½ times annual requirements on long-term debt.

- c) Preferred shares if (i) at least the specified annual dividend was paid thereon in each of the five preceding years, or (ii) the common shares are eligible investments.
- d) Common shares if during each of the preceding five years (i) a dividend was paid thereon, or (ii) earnings were sufficient to pay a dividend thereon, of at least 4% of the trust company's average book value of the stock for the year.

Not more than 25% of guaranteed funds may be invested in common shares and not more than 30% of the common or total shares of any corporation may be purchased, including shares purchased with company funds.

b, c, and d are subject to the instrument creating the trust.

- e) Real estate for rental to a corporation whose preferred or common shares are eligible investments, if the lease provides for a net revenue expected to yield reasonable interest and repay 85% of the principal (i) during the lesser of the term or 30 years, if the parcel does not exceed 2% of book value of the total of company and guaranteed funds, or (ii) as in (i) but up to 40 years, if rents for three years prior to investment and prospective rents appear sufficient, and total investments of this kind are not greater than 5% of total guaranteed funds or 25% of the company's unimpaired capital and reserve.
- f) Other loans and investments may be made, which do not qualify in the normally prescribed ways, up to 7% of guaranteed funds, subject to the Superintendent's approval; single parcels of rental real estate not to exceed one percent of total company and guaranteed funds; no enlargement of authority to invest in real estate mortgages, or proportions investable in shares.

**B) Company funds: principal provisions for investment in business enterprises.**

For business investments provisions are very largely the same as for guaranteed funds. Loans and investments which do not normally qualify may not exceed 15% of company funds, but together with those of guaranteed funds may not exceed 7% of the total of the two funds.

**C) Borrowing Power.**

The maximum ratio of borrowed money plus guaranteed funds may not exceed 12½ times net worth, unless a higher ratio is approved by the Superintendent. To permit a limit above 20, special Financial Standards must be met.

- i) Quality asset standard



On the effective date, not less than two-thirds of company and guaranteed funds invested in chartered bank deposits, or bank-guaranteed obligations payable within five years; bonds and debentures of or guaranteed by governments in Canada; residential mortgages; mortgages on real estate or leaseholds insured for at least 20% of their value.

ii) Earnings standard

The company's earnings in each of any of four of the last five years, and in each of the last two years, shall have been sufficient to enable a dividend on its common shares of at least 4% of average book equity to be paid out of earnings for the year.

iii) Cash flow standard

On the effective date, chartered bank deposits of the company's own funds, plus the amount the company estimates it will receive in the next 12 months will not be less than the company's estimated requirements for the next 12 months to pay interest on guaranteed trust and borrowed money, expenses except for depreciation and the foregoing interest, 80% of undisbursed commitments on loans secured by real estate and leaseholds, and 40% of the total amount that will become payable on a fixed date within that period.

iv) Liquidity and strain on equity standard

On the effective date, the sum of (1) chartered bank deposits of the company's own funds, and (2) the total market value of unencumbered federal and provincial government securities, chartered bank guaranteed debts payable within five years; corporate debt payable on demand within one year or which qualifies as eligible guaranteed fund investments, or demand loans secured by bonds or debentures held by the company in respect to guaranteed funds, shall not be less than the sum of (3) \$50 million and/or 50% of the demand debt payable by the company, whichever is less, plus (4) 25% of the excess over \$100 million of the company's demand debt.

Demand debt includes the amount of guaranteed trust money withdrawable on demand, subject to the company's right to require 30 days notice.

On the effective date holdings of (2) shall not exceed the required amount, i.e. (3) + (4) - (1), by more than 10% of the company's net worth.

## Provincial

### Credit Unions

Provisions governing loans to private sector non-financial business enterprises including cooperatives.

#### 1. Businesses eligible to become members include:

Sask. Cooperative associations, corporations registered in Saskatchewan, unincorporated bodies and partnerships if the majority of the enterprise's members or shareholders are persons of the same general group as the members of the credit union in which membership is sought, or if the Registrar approves.

Man. Incorporated or unincorporated businesses composed mainly of individuals eligible for membership in a credit union may be members.

Ont. There are detailed rules (R.68/79) re: which corporations, partnerships and unincorporated associations may become members of a credit union. Generally the employees or members of the entity seeking membership must have an association with the credit union or be members of it.

N.S. Cooperatives and corporations. In the case of a corporation, the majority of its shares must be held by members of the credit union in which membership is sought. A corporation cannot be a member unless it is composed of the same general group as that comprising the membership of the credit union.

P.E.I. Partnerships and corporations composed mainly of individuals who are eligible for membership in a credit union. However, non-individual members may only borrow in excess of their shareholdings with the consent of the League.

#### 2. Non-members who may obtain business loans include:

Alta. Cooperative associations or companies registered under the relevant Alberta statute.

N.B. Cooperatives registered in the province.

#### 3. A limit is placed on the amount of a business loan that may be granted to any one borrower:

- B.C. The amount is established by the Reserve Board for each credit union. As well, the Reserve Board requires that a certain portion be secured by a first or second mortgage on real property.
- Alta. The amount is established by the board of directors of the credit union..
- Sask. The limit in the Standard By-laws is 5% of the credit union's capital and deposits unless the Mutual Aid Board approves a higher limit. The Business Loans Policy recommends that the amount less assigned deposits or negotiable securities not exceed 5% of net assets or 100% of total reserves. If a credit union wants to obtain "approved lender" status which allows higher limits for unsecured loans and business loans, the Mutual Aid Board recommends that the amount loaned to any one borrower not exceed the lesser of 1% of outstanding loans or 25% of reserves.
- Man. The limit in the Regulations is 10% of shares and deposits or a lesser amount approved by the board of directors of the credit union.
- Ont. The maximum is 10% of shares, deposits and surplus or a lesser amount as prescribed by the by-laws of the credit union.
- Que. No limit is specifically prescribed.
- N.B. The maximum is 5% of the assets of the credit union.
- N.S. The maximum is 10% of the credit union's deposits and paid-up capital.
- P.E.I. The maximum is determined by the board of directors and the League, and varies depending on purpose. For example, a maximum of 75% of the value of non-automotive equipment is permitted, 50% of stock-in-trade; 75% of recent accounts receivable.
4. A ceiling is placed on the entire business loans portfolio of a credit union:
- Alta. The legislation is silent but the board of directors, subject to any provision in the Standard By-laws, may determine the aggregate number of loans given for a period of two years or more that may be outstanding at any one time.

Sask. The Act lumps business loans and loans for the purchase of land and buildings (mortgage loans) together and limits them to no more than 25% of capital and deposits, unless the credit union authorizes otherwise in a supplemental by-law. As well, the Standard By-laws state that total business purposes loans are not to exceed 25% of shares and deposits unless the Mutual Aid Board approves a higher limit. However, the Mutual Aid Board recommends a limit of 25% of loans outstanding or ten times total reserves.

Ont. Loans to corporations and partnerships are limited to the greater 7% of unimpaired capital, deposits and surplus or such amount the Director approves, not exceeding 15%.

Que. No specific provision is given but the Act states that the Board of Directors has the power to determine the total amount of money the credit committee may loan to members.

N.B. The Regulations limit business loans to 20% of the assets of the credit union and mortgage loans to 50% of the assets. No more than 60% of a credit union's assets may be loaned in mortgage and business loans combined.

N.S. The amount loaned to corporations is not to exceed 25% of shares and deposits.

P.E.I. The legislation is silent but the League in its capacity as Inspector of Credit Unions monitors the amount of commercial lending and has the power to limit such lending if it is considered necessary.

Silent Manitoba, British Columbia.

5. Business lending must be approved by the Stabilization Board or the central:

B.C. However, the practice is that the Reserve Board grants a "continuing approval" or exemption to each credit union for loans up to a certain level, subject to terms and conditions such as adequate security and compliance with the credit union's written lending policy. This level is determined on the basis of the credit union's expertise and operational performance.

Note: A loan up to \$5,000 does not need approval. A loan up to \$50,000 does not need approval if it is secured by a first mortgage on the applicant's residence, the amount is no more than 75% of appraised value, and the applicant is gainfully employed. Any loan over the exemption amount must be approved by the Reserve Board.

Alta.

The special Loans Committee of the Stabilization Board must approve all loans depending on the amount of the loan and the value of the credit union's assets. For example, if assets are less than one million dollars, all loans of more than \$10,000 must be approved. Exemptions from this rule, based on a credit union's operational performance, may be granted but there have as yet been no requests for such an exemption.

Note: As well, certain loans are excluded from approval requirements:

- (a) those secured by mortgage of no more than 75% of property value;
- (b) those secured fully by shares, a cash collateral account or government bonds at market value; or
- (c) those insured by MICC or CMHC.

Sask.

The Mutual Aid Board must approve if the loan plus any outstanding loans to that member exceeds \$25,000 plus the member's shares, deposits CSB's, and 50% of the market value of negotiable securities, or such higher amount the Mutual Aid Board authorizes.

Man.

After approval by the credit union, a commercial loan application must be sent to the central for approval. The central may make changes or reject the application and if this is the case, the central must forward a copy of its recommendations to the Stabilization Fund. A credit union may apply to the Fund and the central to be exempted from this approval requirement.

Note: A commercial loan is defined as a loan which exceeds the lesser of \$50,000 or one-half of 1% of shares and deposits, and which is to be used in a business or repaid from business earnings. Thus, a loan not exceeding this amount would not require approval, although the credit committee of the central can unilaterally reduce that discretionary limit or in fact prohibit commercial loans altogether. All bridge financing arrangements must be approved by the central of the Fund.

Que.

All business/commercial loans must be approved by the Regional Union unless the amount for a single borrower is less than the non-business loan limit plus the value of deposits and shares given as security, or unless the loan is fully secured by a first hypothec on one or all of the immovables of the business. As well, the Regional Union must approve any loan that puts a single borrower's total over \$75,000. However, this total is calculated without including loans fully secured by a first hypothec provided that each of these that exceeded the loan limit had been approved. It should be noted that the non-business limit is set from time to time by the annual meeting.

- N.B.        The permission of the Registrar is presently needed for business loans in excess of the lesser of \$25,000 or 1% of the assets of the credit union. However, this is to be changed to a requirement for the approval of the credit union's federation. As well, the Board of Directors of the credit union must approve every business loan.
- N.S.        Business loans must be approved by two-thirds of the majority of the credit committee plus two directors. If the business loan is made to a corporation, and exceeds \$25,000 (plus shares and deposits pledged), it must also be approved by the Central Committee of the Stabilization Fund Board.
- P.E.I.      All business loans over \$10,000 other than farming and fishing loans must be approved by the League. See the comments under point No. 8.
- Ont. -      Silent.
6.      Security must be taken for each business loan:
- B.C. -      This is the case except for a loan to an unincorporated business for an amount not exceeding the lesser of \$5,000 and 5.000 less any outstanding personal loans. Further, three types of security are not acceptable: a certificate of title, a personal guarantee, or a pledge of goodwill.
- Alta. -      The board of directors is to determine this but the Loans Manual notes that a credit union must be secured. If a credit union had an exemption from Stabilization Board approval (see point 5), it must also annually apply for authorized lending limits for unsecured loans.
- Sask. -      Up to \$5,000 can be unsecured but the Mutual Aid Board may authorize a higher amount.  
Note: Any loan to a corporation with share capital which is not a co-operative or a credit union must be guaranteed by:  
 (a) one or more individual shareholders who together own or control over 50% of the corporation's share; or  
 (b) by a provincial or federal government agency; or  
 (c) by a corporation approved by the Registrar.
- Man. -      The board of directors is to determine the security. The Loans Manual notes that security is to be taken that is "appropriate to the assistance granted".
- Ont. -      Loans to corporations or partnerships must be fully secured by a mortgage or charge of real or personal property. Loans to unincorporated associations need only be secured.
- Que. -      Security may be required at the discretion of the credit committee.

N.B. - Character loans of up to \$1,000 may be granted and if the Registrar approves, up to \$5,000. However, adequate security is required for all loans and the regulations define a business loan as one secured by the assets or guarantee of the person or corporation.

N.S. - The unsecured limit is \$1,000 and up to \$2,500 if the credit union's by-laws permit it. However, no loan to a corporation may be made unless it is personally guaranteed by the shareholders holding a majority of the shares in value and in voting rights. Such a guarantee is not required if the loan is guaranteed by a government agency or organization approved by the Stabilization Fund Board.

P.E.I. - A loan of up to \$5,000 with a maximum 36 month term may be unsecured.

7. A ceiling of 75% of the property value is established for a loan secured by mortgage: Alberta, Nova Scotia

B.C. - Other limits are used for different types of properties or if there is repayment insurance.

Sask. This limit does not apply if the portion over 75% is insured.

Man. - Up to 100% is allowed if insured.

Ont. - Up to 100% is allowed if insured, subject to any limitation in the credit union's by-laws.

Que. - There is no specific provision but 75% of the value is the limit imposed by the Act for a credit union's mortgage investments.

N.B. - Up to 95% of the value is permitted if the credit union has mortgage insurance coverage.

P.E.I. - The ceiling is 80% of value.



8. Special rules apply to agricultural business loans:

B.C., Alta., Sask., Ont., Que., and N.S. - No distinction is made between business loans for agricultural purposes and other business loans.

Man. - Yes.

N.B. - Farming, fishing, and forestry loans are not considered business loans for the purposes of the Regulations. They are therefore not included when calculating the total business loans portfolio and need not be approved by the board of directors. However, approval of the Federation is still required for such a loan if it is in excess of 1% of assets or \$25,000.

P.E.I. - All farm loans over \$20,000 must be approved by the League. All fishing loans over \$15,000 must be approved by the League, unless they are subsidized by the government in which case the limit for approval is \$20,000. Total business, farm, and fishing loans to any one borrower cannot exceed \$20,000 without the approval of the League.



## Sources

Alberta. The Credit Union Act, R.S.A., 1970. Ch. 74, as amended.

British Columbia. Credit Union Act, R.S.B.C. 1979, Ch. 79, as amended.

Manitoba. The Credit Unions and Caisses Populaires Act, S.M., 1977, Ch. 51, as amended.

Newfoundland. The Co-operative Societies Act, R.S. Nfld, 1970, Ch. 65, as amended.

New Brunswick. Credit Unions Act, C.C.S. N.B., Ch. c-32.1.

Nova Scotia. Credit Unions Act, S.N.S. 1978, Ch. 4.

Ontario. The Credit Unions and Caisses Populaires Act, 1976. R.S.O. 1980, Ch. 102.

Prince Edward Island. Credit Union Act, R.S. PEI, 1974, Ch. c-28, as amended.

Quebec. Savings and Credit Union Act, R.S.Q. 1977. Ch. c-4, as amended.

Saskatchewan. The Credit Union Act, R.S.S. 1978, Ch. C-45, as amended.

Selected Business Loan Manuals and Policies.

### **III TWO FEDERAL FINANCING ASSISTANCE PROGRAMS**

- 1) Federal Business Development Bank Act (S.C. 1974-75-76, c. 14, as amended by 1976-77 cc. 10, 52; 1980-81 cc. 10, 40)

a) Objects

To help establish and develop business enterprises in Canada, especially small enterprises, by providing financial assistance, management counselling and training, information, advice, and other services ancillary or incidental to any of the foregoing.

b) Financial Services Powers

- i) Lend or guarantee loans to new or existing businesses where financial resources are not otherwise available on "reasonable terms and conditions", the principals of the business are expected to have a continuing commitment to it, and there are reasonable prospects for the success of the business.
- ii) For firms in the circumstances above, purchase or underwrite security issues.

May take any kind of security for loans including warehouse receipts, bills of lading, and "goods, wares, and merchandise" as under the appropriate sections of the Bank Act "as if the Corporation were a bank".

c) Financing

Capital is provided by the government and by retained earnings. The Corporation may issue debt, and may also borrow from the Consolidated Revenue Fund. Total debt plus guarantees and underwriting agreements must not exceed 12 times capital, or up to 15 times on the approval of the Governor in Council. Total liabilities plus contingent liabilities plus capital may not exceed \$3.2 billion.

d) Management Services

Counselling services may be provided to eligible persons "for the purpose of supplementing such management counselling services as may be available in the private sector..."

Management training, conferences, seminars, and other meetings may be provided to meet the needs of small business enterprises.

Similarly information about requirements for successful administration, federal incentives and assistance programs, and financial services and other forms of assistance may be distributed to "business enterprises".

2) Small Business Loans Act (R.S.C. 1970, c. S-10, as amended)

**Purpose:** to assist small business in purchasing, improving, or constructing, as applicable, equipment, plant, or premises.

**Eligible borrowers:** profit seeking enterprises with gross annual revenues below \$1.5 million in manufacturing, trade, communications, construction, transportation, and "Service Businesses", excluding legally recognized profession.

**Eligible lenders"** all Canadian chartered banks; all credit unions, caisses populaires, trust, insurance and finance companies qualified and designated as banks under the Act, and Alberta Treasury Branches.

**Maximum terms:** loan \$100,000; loan-to-value, 80% or 90% for land; term 10 year (with at least annual payments); interest rate, chartered bank prime +1% and varied with it.

**Security:** as under section 178 of Bank Act; chattel mortgage or commercial pledge, mortgage, sale agreement.

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