

# **Small Business in Canada**

## **A Statistical Overview**



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## Table of Contents

Number of Businesses . . . . .	1
Small Business Share of Employment . . . . .	2
Small Business' Share of Total Business Sales, Profit & Assets . . . . .	2
Comparison of Paid Employees and the Self-employed . . . . .	3
Sources and Applications of Funds of Small Incorporated Businesses . . . . .	4
Business Start-ups and Exits . . . . .	5
Small Business Start-ups and Exits by Sector . . . . .	6
Change in Number of Businesses Registered . . . . .	7
Regional Distribution of Canadian Small Businesses . . . . .	8
Estimated Average One Year Survival Rates . . . . .	9
Trends in Net Jobs Created in Canada . . . . .	9
Job Creation and Job Loss - Canada . . . . .	10
Industry Employment Accounted for by Small Firms . . . . .	11
Number of Net New Jobs Created by Sector . . . . .	12
Highlights . . . . .	13
Profile of Successful SMEs . . . . .	14

Over the last decade, small businesses have become an increasingly important component in the Canadian economy in terms of job creation and economic growth. As such, more emphasis has been placed on small businesses to help Canada compete successfully in the ever changing global market. The growth of these businesses is therefore extremely important to the competitiveness of the Canadian economy. This point will be examined in detail later in this report.

The data presented in this overview covers the decade between 1981 and 1991, the latest comprehensive data available from Statistics Canada. As defined in this report, the term "small business" includes any firm with less than 100 paid employees in the manufacturing sector and less than 50 paid employees in all other sectors. A definition of size based on employment provides a consistent basis from which comparisons can be made. In some specific cases, however, data is based on small businesses with less than \$5 million in annual revenues.

Small business represents a very significant proportion of the business community in Canada. Data for 1991 shows that there were 50% more businesses registered in 1991 than in 1981 (see Figure 1).

In 1991, 98.7% of the some two million businesses had less than 50 employees and 99.5% had less than 100 employees.

**Figure 1**  
**Number of Businesses (including self-employer businesses)\***

	1991	1981	Percentage Change
Self-employed (no employees)	1 146 000	678 000	69.0%
Employer Businesses <sup>†</sup>	922 253	698 142	32.1%
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Total Businesses	2 068 253	1 376 142	50.3%

\* *Excludes public administration*

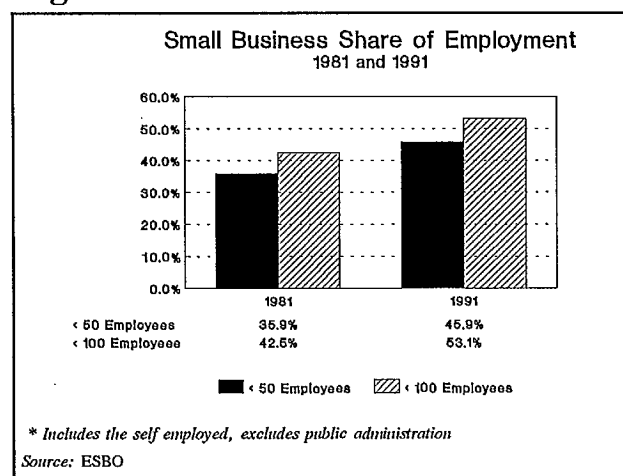
<sup>†</sup> *Includes 897 001 small businesses in 1991 and 678 310 in 1981*

*Source: Entrepreneurship & Small Business Office (ESBO), Industry Canada.*

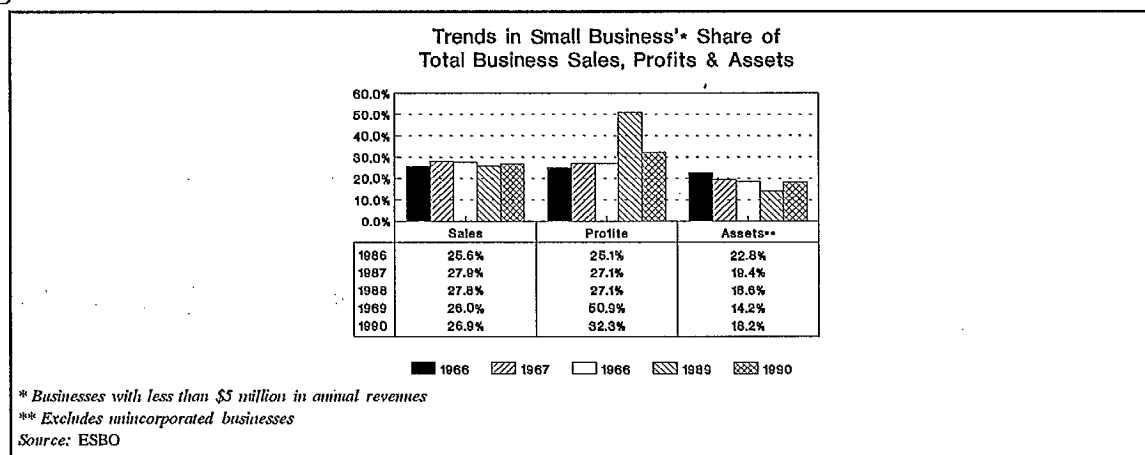
Another way of expressing the significance of the small business sector is to focus on how much employment it generates. If the self-employed are included, over 53% of all Canadians working in the private sector are employed in enterprises with fewer than 100 employees and over 45% in enterprises with fewer than 50 employees (see Figure 2).

**Figure 2**

The small business sector's total economic contribution to the Canadian economy remains significant (see Figure 3). Businesses with \$5 million or less in annual revenues accounted for almost 27% of all business sales in 1990, the approximate share they have maintained since 1986. The small business share of profits fell from an extraordinary 50.9%<sup>†</sup> in 1989 to a more sustainable 32.3% in 1990. The drop in the small business share of corporate assets<sup>††</sup> observed since 1986 ended with a 4% increase in 1990.



**Figure 3**



<sup>†</sup> Although the profits of small businesses remained steady in absolute terms, the collapse of profits by large firms in 1989 distorts the share of small business profits in that year.

<sup>††</sup> Corporate assets are defined as the net book value of all assets, tangible or intangible, long-term or short-term; consist of current, fixed and other assets.

The number of self-employed persons is growing at a faster rate than paid workers, particularly the incorporated self-employed (see Figure 4). Average annual incomes are significantly higher for the self-employed, 35% higher in 1991 compared to paid workers. Since 1981, growth in average annual income was slightly higher for paid workers at 80.3% compared to the 75.6% growth rate experienced by the self-employed.

**Figure 4**  
**Comparison of Paid Employees and the Self-employed**

	1981	1991	Increase	% Growth
<u>Number</u>				
Paid Workers	10 596 895	13 102 845	2 505 950	23.6%
Total Self-employed	1 084 750	1 368 195	283 445	26.1%
Incorporated	323 855	465 320	141 465	43.7%
Unincorporated	760 895	902 875	141 980	18.7%

Average Annual Income\*

Paid Workers	\$14 717	\$26 542	\$11 825	80.3%
Total Self-employed	\$20 182	\$35 927	\$15 263	75.6%
Incorporated	\$25 277	\$43 573	\$18 296	72.4%
Unincorporated	\$18 014	\$31 986	\$13 972	77.6%

\* Note: Dollar figures are current, not constant dollars

Source: Census of Canada, ESBO

The small business contribution to the Canadian economy is largely self-financed with less than half of the funds secured from outside of the firm. Between 1989 and 1991, however, there was a significant decline in internal sources of funding and shareholder loans increased (see Figure 5). Reduced profits experienced during the recession apparently led owners to invest more money into their businesses. The observed increase in investment income is associated with an increase in the purchase of investments by small businesses, i.e., from 1989 to 1991 the percentage of funds used to purchase investments more than doubled while the acquisition of fixed assets fell by 9.4%.

**Figure 5**  
**Sources and Applications of Funds of Small Incorporated Businesses\*, 1989 and 1991**

	1989	1991
<b>Sources:</b>		
Internal	36.5%	22.7%
Sale of Assets	12.1%	10.6%
Shareholders Loans	13.8%	22.9%
Long-term Debt	24.9%	23.4%
Government Grants and Loans	0.3%	0.4%
Investment Income	6.3%	14.6%
Other	6.2%	5.4%
<b>Applications:</b>		
Acquisition of Fixed Assets	35.4%	26.0%
Payment of Dividends	9.1%	8.0%
Reduction of Long-term Debt	18.8%	13.3%
Repayment of Shareholder Loans	17.9%	14.6%
Investments	14.7%	31.2%
Other	4.1%	6.9%

\* *Businesses with less than \$5 million in annual revenues*  
Source: Statistics Canada

Business start-ups and exits are another measure of the vitality of small business. A business start-up is here broadly defined as either a business birth, a change in ownership, a change in form of ownership, an upgraded employer status or a restructuring of accounts. Similarly, a business exit is broadly defined as either a business death, a location death, a downgraded employer status, a change in ownership or a restructuring of accounts.

Between 1989 and 1991 there was, for the first time, a significant decrease observed in the net number of businesses. Figure 6 shows the number of start-ups and the number of exits from 1980-81 to 1990-91. This decrease reflects the impact of the recession in the Canadian economy. Canada shared this economic slow down with most other industrialized countries during this period. Note that the number of start-ups peaked in 1988-89 at 165 980, and has been falling since. On the other hand, the number of exits continues to increase. The net result is a decrease in new businesses since 1988-89.

**Figure 6**  
**Business\* Start-ups and Exits, 1980-1991**

	Start-ups	Exits	Net Increase
1980-81	134 769	95 996	38 773
1981-82	119 126	106 653	12 473
1982-83	145 154	102 251	42 903
1983-84	138 547	117 371	21 176
1984-85	152 213	110 520	41 693
1985-86	152 472	122 828	29 644
1986-87	161 285	127 085	34 200
1987-88	161 931	135 394	26 537
1988-89	165 980	140 054	25 926
1989-90	162 347	154 680	7 667
1990-91	148 073	158 269	(10 196)

*\* All sizes of business - excludes public administration*

*Source: ESBO, Statistics Canada*

Most sectors in 1990-91 experienced a decline in the number of firms with construction and retail displaying the largest identifiable decreases (see Figure 7). This again is a result of the recession in the Canadian economy during this period. Service-based sectors showed a net increase in the number of firms, consistent with the expansion of the service component of the Canadian economy.

**Figure 7**  
**Small Business\* Start-ups and Exits by Sector, 1990-91**

Industry	Start-ups	Exits	Net
Agriculture	7 917	9 794	(1 877)
Fishing & Trapping	1 142	895	247
Logging & Forestry	1 824	1 906	(82)
Mining, Quarrying & Oil Wells	655	730	(75)
Manufacturing	5 856	7 005	(1 149)
Construction	16 008	20 676	(4 668)
Transportation & Storage	5 133	5 389	(256)
Communication & Other Utilities	690	718	(28)
Wholesale Trade	6 964	6 556	408
Retail Trade	19 449	22 162	(2 713)
Finance & Insurance	3 709	3 921	(212)
Real Estate & Insurance	4 677	4 962	(285)
Business Services	12 886	12 182	704
Educational Services	898	667	231
Health & Social Services	8 137	5 345	2 792
Accom., Food & Bev. Services	11 073	10 594	479
Other Service Industries	26 028	24 330	1 698
To be Classified**	14 793	20 153	(5 360)
Total	147 839	157 985	(10 146)

\* Excludes public administration

\*\* Includes firms whose industry classification has not yet been determined

Source: ESBO, Statistics Canada



Trends over the decade between 1981 and 1991 illustrate that small firms are becoming increasingly significant in Canada's regional economies. This is particularly noticeable in the four Atlantic provinces, Quebec, Ontario and British Columbia where growth in the number of business registrations exceeds the national average (see Figure 8).

**Figure 8**  
**Change in Number of Small Businesses Registered between 1981 and 1991\***

	1981	1991	% Change
Newfoundland	11 127	20 731	86.3%
Prince Edward Island	4 649	6 938	49.2%
New Brunswick	17 640	24 825	40.7%
Nova Scotia	20 442	29 133	42.5%
Quebec	164 959	220 697	33.8%
Ontario	227 313	301 243	32.5%
Manitoba	27 380	33 165	21.1%
Saskatchewan	34 431	40 040	16.3%
Alberta	80 245	100 992	25.9%
British Columbia	97 623	132 787	36.0%
Yukon/North West Territories	1 952	3 297	68.9%
Canada	678 310	897 001	32.2%

*\* The Canada total records multi-provincial businesses once only. It is therefore less than the sum of businesses in each province.*

*Source: ESBO, Statistics Canada*

Small businesses play a vital role of every provincial and territorial economy in Canada. Predictably, each region's share of the total varies in accordance with its population and economic structure (see Figure 9). However, the proportion of small businesses registered in Ontario is lower than the province's 36% share of the Canadian population. By contrast, British Columbia's proportion of small businesses is higher than its 11.5% share of the population. Of note, Manitoba, Saskatchewan and Alberta all experienced a decline in their percentage of small businesses while all other provinces either remained steady or displayed an increase.

**Figure 9**  
**Regional Distribution of Canadian Small Businesses, 1981 and 1991\***

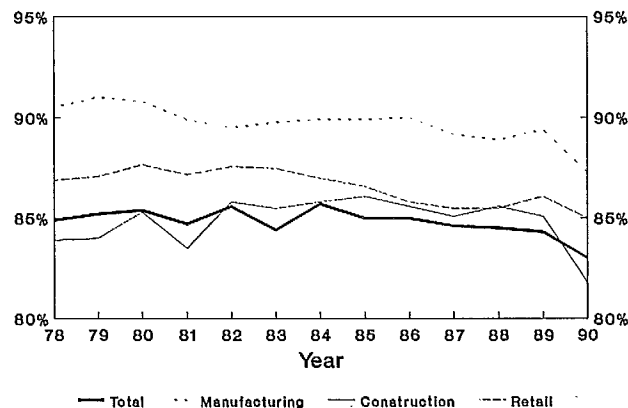
	1981	1991
Newfoundland	1.6%	2.3%
Prince Edward Island	0.7%	0.8%
New Brunswick	2.6%	2.7%
Nova Scotia	3.0%	3.2%
Quebec	24.0%	24.2%
Ontario	33.0%	33.0%
Manitoba	4.0%	3.6%
Saskatchewan	5.0%	4.4%
Alberta	11.7%	11.1%
British Columbia	14.2%	14.5%
Yukon/North West Territories	0.3%	0.4%

*\* Total may not add to 100% due to rounding.*

*Source: ESBO, Statistics Canada*

The year to year survival rate of businesses in Canada has exceeded 80% since 1978 and has maintained a consistent level through both recessionary and growth periods (see Figure 10). Manufacturing businesses have the highest survival rate at approximately 90% followed by retail at 87% and construction at 85%. The construction industry also appears the most volatile.

**Figure 10**      **Estimated Average One Year Survival Rates**



Source: ESBO, Statistics Canada

Since 1987, a downward trend in net jobs created has occurred with a significant net job loss occurring in 1990-91 (see Figure 11). In 1989-90, businesses with less than 100 employees accounted for 100% of the net new jobs created with large companies experiencing job losses. The less-than-5 employee group had the only increase in net jobs created in 1990-91.

**Figure 11**  
**Trends in Net Jobs Created in Canada**

Net Jobs Created	1987-88	1988-89	1989-90*	1990-91
All Sizes(000's)	690.4	418.5	43.3	(461.7)
% < 5 ALU**	26%	36%	100%	100%
% < 50 ALU	59%	75%	100%	†
% < 100 ALU	68%	83%	100%	†

\* Businesses with more than 100 employees showed significant net job loss

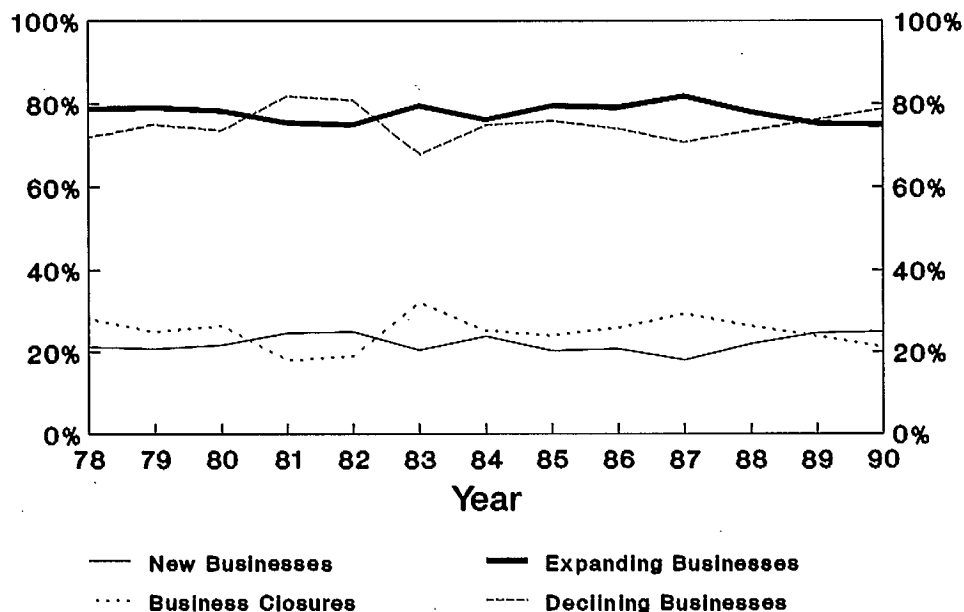
\*\* ALU = Average Labour Units employed by firm. It can be taken as equivalent to number of employees per firm. The data used to calculate the percentage figures in this table exclude the self-employed. Percentage figures have been rounded to the nearest percent.

† No Net Jobs Created

Source: ESBO, Statistics Canada

Between 1978 and 1991, expanding businesses contributed more to the creation of new jobs than did the creation of new businesses. Similarly, declining businesses accounted for more job losses than did business closures (see Figure 12 below). In the recessionary periods 1981-82 and 1990-91 the decrease in the number of business start-ups contributed more significantly to the increase in unemployment than did the number of business exits. The potential for future employment growth might therefore lie with expanding businesses rather than new business formation.

**Figure 12 Job Creation and Job Loss - Canada**



**Expanding Businesses:** Those businesses which were continuously identified over the period and which recorded an increase in ALU's

**Declining Businesses:** Those businesses which were continuously identified over the period and which recorded a decrease in ALU's

**New Businesses:** Those businesses which were newly identified during the period

**Business Closures:** Those businesses which were no longer identified by the end of the period

Small business employment varies greatly from sector to sector. In general, small businesses are less prominent in capital-intensive sectors such as manufacturing and utilities and more prominent in less capital-intensive sectors such as services (see Figure 13). The minor proportion of people employed by small businesses in educational services arises because this sector is dominated by schools and other large publicly funded institutions.

**Figure 13**  
**Percent of Industry Employment(ALUs) Accounted for by Small Firms, 1991**

Industry	Industry Employment* (000's)	< 50 Employees (%)	< 100 Employees (%)
Manufacturing	1 937.6	21 %	33 %
Retail Trade	1 500.8	47 %	55 %
Health & Social Service	1 074.0	26 %	33 %
Educational Services	809.3	5 %	8 %
Accom., Food, & Bev.	798.5	56 %	69 %
Other Service Industries	718.2	56 %	65 %
Finance & Insurance	672.6	15 %	20 %
Wholesale Trade	650.6	50 %	63 %
Business Services	647.6	46 %	57 %
Construction	549.4	71 %	81 %
Transportation & Storage	363.5	35 %	43 %
Real Estate Operators & Insurance Agents	251.3	60 %	69 %
Comm. & Other Utilities	215.3	12 %	16 %
Mining, Quarrying & Oil Wells	170.8	16 %	21 %
Agriculture & Related Serv.	110.1	88 %	94 %
Logging & Forestry	42.7	73 %	82 %
Fishing & Trapping	9.3	91 %	96 %
To be Classified**	120.9	45 %	51 %
<b>TOTAL, Private Sector</b>	<b>10 642.8</b>	<b>37 %</b>	<b>45 %</b>

\* *Excludes self-employment.*

\*\* *Includes firms whose industry classification has not yet been determined.*

Source: ESBO, Statistics Canada

As previously noted, there were more business exits than start-ups and there was a significant loss of jobs in 1990-91. It is not surprising then, that almost every sector of the economy experienced job losses with the exception of community services (see Figure 14). Job losses in manufacturing, construction, wholesale and the business & personal service sectors accounted for over 80% of the total.

**Figure 14**  
**Number of Net New Jobs Created by Sector (thousands)**

	1986-87	1987-88	1988-89	1989-90	1990-91
Primary	10.3	8.2	(1.8)	1.3	(7.8)
Mining	1.5	9.2	(5.9)	(3.8)	(25.4)
Manufacturing	40.3	83.5	3.0	(129.6)	(143.6)
Construction	45.2	62.8	39.9	(16.0)	(87.0)
Trans/Comm.	1.4	39.7	39.5	7.6	(31.9)
Wholesale Trade	38.2	67.9	30.6	2.4	(72.4)
Retail Trade	71.8	70.5	53.6	36.7	(44.3)
Fin./Ins./Real Est.	35.4	45.2	31.7	(29.2)	(12.8)
Community Serv.	35.2	98.5	75.4	88.8	56.7
Bus. & Pers. Serv.	119.7	136.5	89.0	96.9	(74.7)
To be classified*	14.4	68.4	63.4	(11.7)	(18.3)
Total	413.4	690.4	418.4	43.4	(461.5)

*\* Includes firms whose industry classification has not yet been determined*

*Note: Excludes Public Administration*

*Source: ESBO*

## HIGHLIGHTS

- There were 922,253 businesses (with employees) in Canada in 1991, a thirty two percent increase since 1981. Of these businesses, ninety-seven percent had fewer than 50 employees and ninety-nine had fewer than 100 employees.
- Businesses with fewer than 50 employees accounted for forty-five percent of all private sector employment in 1991.
- The average income of full time self-employed people (\$35,927) is thirty-five percent higher than that of paid workers.
- Small businesses are less self-sufficient in 1991 than in 1989 (twenty-three percent of funding from internal sources versus thirty seven percent in 1989).
- Between 1990 and 1991, there was a net decrease of approximately 10,200 businesses of all sizes. In that period, there was a net loss of 461,500 jobs.
- The net decrease in businesses was largest in the Construction and Retail Trade industries, as well as industries to be classified. The net increase in businesses was largest in Health & Social Services industries and Other Service industries.
- Manufacturing businesses have the highest survival rate at 90%.
- Expanding businesses contributed more to the creation of new jobs than did the creation of new businesses between 1978 and 1991.
- In 1991, more than 80% of businesses (with employees) in Fishing & Trapping, Agriculture & Related services, Logging & Forestry, and the Construction Industries had less than 100 employees.

## **Profile of Successful Small and Medium-Sized Enterprises (SMEs)**

In 1992, the Entrepreneurship and Small Business Office (ESBO), in conjunction with Statistics Canada, conducted a survey of some 2000 SMEs to determine what are the key characteristics of successful SMEs compared to non-growing SMEs.

Successful SMEs are small (average of \$6.6 million in sales in 1989), independent and Canadian owned. There is a similar industry mix between successful SMEs and the economy as a whole, with the exception of business services which has moderately more SMEs.

Successful SMEs are profitable, yet access to outside sources of capital are required for these firms to grow. Growth of SMEs tends to be via internal expansion as opposed to mergers.

Successful SMEs invest more in R&D than do other firms, diffuse technology more rapidly and develop more new products/services.

Although the penetration of foreign markets is most often associated with large corporations, the majority of successful SMEs have more sales outside their home region.

This group of firms have a lean management structure and relatively more sales people which reflects their emphasis on marketing. These firms also place more emphasis on formal staff training.

In terms of government programs and assistance, successful SMEs use government programs more than non-successful firms, particularly R&D and market information. However they tend not to use government training or procurement programs.



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