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SME PROFILE

SOCIAL ENTERPRISES IN CANADA

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ABSTRACT

In Canada, there is a growing interest in the social enterprise sector, yet there has been little data available to help understand the financing, growth, procurement, innovation and exports of social enterprises, as well as the obstacles they face.

To help fill this data gap, this report uses an experimental dataset developed from the 2017 *Survey on Financing and Growth of Small and Medium Enterprises* to offer the first-ever snapshot of how social enterprises operate in and contribute to the Canadian economy.

In particular, the financing and growth activities, as well as firm and owner characteristics, of not-for-profit social enterprises and for-profit social enterprises are compared to those of co-operatives and small and medium-sized enterprises. The findings reveal that, in 2017, co-operatives were larger and older than social enterprises, and social enterprises were, in turn, larger and older than SMEs.

Co-operatives, social enterprises and SMEs approached financing differently, with co-operatives and social enterprises more often seeking financing. The growth activities of co-operatives, social enterprises and SMEs differed, with for-profit social enterprises more likely to grow, export and expect to grow. Finally, the primary decision makers and majority ownership of co-operatives, social enterprises and SMEs differed demographically. For example, for-profit social enterprises were more often operated by individuals born outside of Canada, while not-for-profit social enterprises were more closely linked to Francophone Canadians.

1 INTRODUCTION

This report summarizes findings based on an experimental dataset developed from the 2017 *Survey on Financing and Growth of Small and Medium Enterprises* to offer the first-ever snapshot of the financing and growth activities of social enterprises in Canada.

In Canada, there is a growing interest in the social enterprise sector, yet there has been little data available to help understand the financing, growth, procurement, innovation and exports of social enterprises, as well as the obstacles they face. The 2017 *Survey on Financing and Growth of Small and Medium Enterprises* is a first step to provide more concrete data and analysis on not-for-profit and for-profit social enterprises, and this profile highlights key data points to better understand how they operate in and contribute to the Canadian economy.

These contributions are compared to all small and medium-sized enterprises (SMEs)¹ and to **co-operatives** (co-ops). Information on the methodology, including data and definitions, is presented in Section 2.

Section 3 details findings from the survey results, which show that co-operatives, social enterprises and SMEs were quite different in terms of firm size and age, with co-operatives both larger and older than social enterprises or SMEs. Social enterprises, in turn, were larger and older than SMEs. Both firm size and age correlate positively with many of the other statistics presented in this report, such as financing, growth, exporting and innovation.

In addition, co-ops, social enterprises and SMEs approached financing differently. For example, co-operatives and social enterprises were more likely than SMEs to request financing, while co-operatives and not-for-profit social enterprises tended to borrow from credit unions. There were also interesting differences in the growth activities of co-operatives, social enterprises and SMEs, with for-profit social enterprises showing a greater propensity to grow, export and expand into new markets. Finally, the results show broad differences in the demographics of both the primary decision makers and the majority ownership of co-operatives, social enterprises and SMEs. As an example, for-profit social enterprises were more likely to be operated by individuals born outside of Canada, while not-for-profit social enterprises were closely linked to Francophone Canadians.

Overall, the survey results provide the first-ever snapshot on the financing and growth activities of social enterprises in Canada. Further, in contrasting results on social enterprises with results on co-operatives and SMEs, this report reveals interesting differences between Canadian co-operatives, social enterprises and SMEs.

¹ Throughout this report, the term 'All SMEs' refers to all for-profit SMEs (which exclude co-operatives and not-for-profit social enterprises but include for-profit social enterprises).

2 DATA AND DEFINITIONS

The 2017 *Survey on Financing and Growth of Small and Medium Enterprises* was designed to determine the types of financing used by small and medium-sized enterprises, and to collect information on recent attempts by SMEs to obtain new financing. In addition, the survey gathered data on SMEs' growth, on activities related to growth, and on business owner characteristics.

The core target population for the survey was private sector, for-profit, SMEs employing between 1 and 499 people and generating over \$30,000 in annual revenues in 2017. The core target population of over 730,000 SMEs was stratified by geography, employment and industry, with random samples selected from these strata in order to generate representative estimates. The core sample size was 17,323 SMEs with a response rate of 59.7%. The survey was conducted by Statistics Canada from February to June 2018. See the [Methodology Report](#) and [questionnaire](#) for further details.

The survey also captured data on social enterprises, by including a sample of not-for-profit social enterprises and by introducing questions aimed at identifying those for-profit SMEs that could be considered for-profit social enterprises. Survey results for both types of social enterprises should be considered experimental.

Potential not-for-profit social enterprises were identified by Statistics Canada prior to the survey as firms meeting all of the following criteria: **1)** registered as a not-for-profit enterprise or charitable organization; **2)** 25% or more of revenues were generated from the sale of goods or services; and, **3)** had at least one employee and \$30,000 in annual revenues. Not-for-profit enterprises and charitable organizations meeting these criteria were reviewed manually by subject-matter experts; the manual review excluded not-for-profit enterprises and charitable organizations where it was considered appropriate by subject-matter experts. The not-for-profit social enterprise sample included all 1,147 enterprises identified by Statistics Canada in this manner.

Respondent enterprises from this sample that answered 'yes' to at least one of the following were considered by the survey to be not-for-profit social enterprises:

- a) *[is]* an enterprise that exists to serve a clear social, environmental or cultural purpose in communities
- b) *[has]* a clear social, environmental or cultural mission
- c) *[focuses]* its business activities on carrying out this social, environmental or cultural mission
- d) *[reinvests]* surpluses to further this social, environmental or cultural mission

The response rate for these not-for-profit social enterprises was 78.7%.

A different approach was used to estimate statistics for for-profit social enterprises. For-profit social enterprises were identified through questions asked to respondents from the core sample of for-profit SMEs regarding their reinvestment of profits with the goal of “further[ing] a specific social, environmental or cultural objective to impact or improve communities.” Specifically, for-profit social enterprises are defined as SMEs that reinvest 10% or more of their profits towards such goals.

3 SURVEY RESULTS

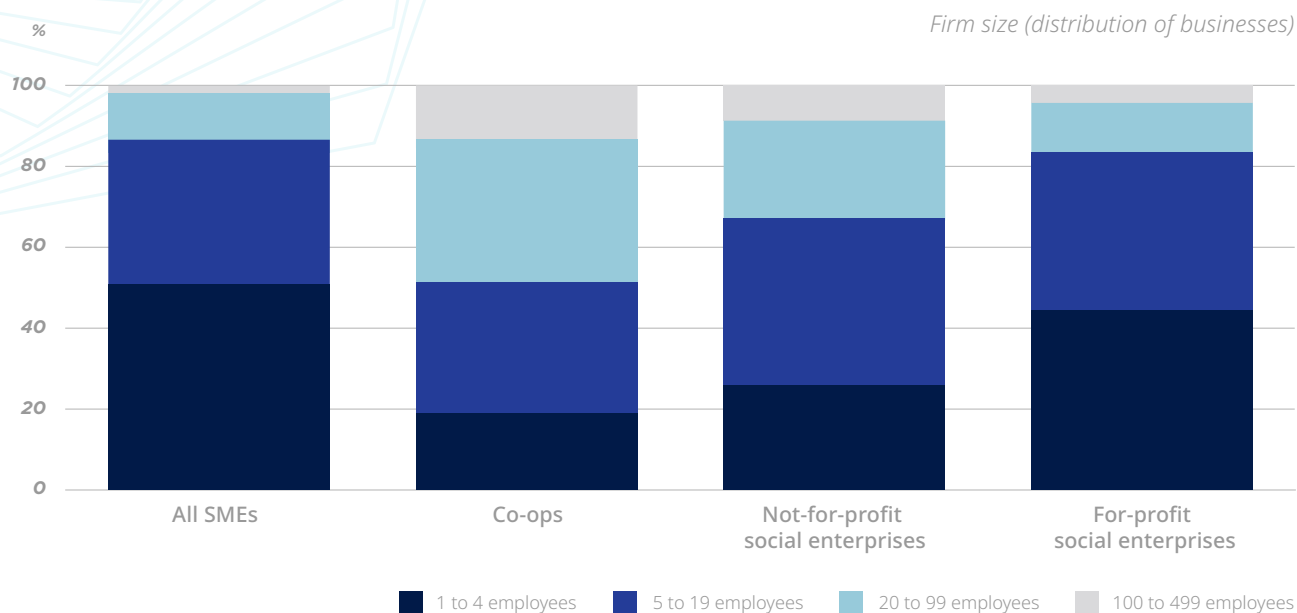
3.1 FIRM CHARACTERISTICS

In 2017, the firm sizes and firm ages of co-operatives, social enterprises and SMEs differed substantively. Co-operatives tended to be larger than not-for-profit social enterprises; the latter tended to be larger than for-profit social enterprises; and, for-profit social enterprises tended to be larger than SMEs. This pattern was roughly reflected in the firm ages of the different types of firms as well.

There were notable differences in the sizes of co-operatives, social enterprises and SMEs. In particular, the firm size distribution in Figure 1 shows that co-operatives were the largest of the four firm types. Not-for-profit social enterprises were the next largest type of firm, followed by for-profit social enterprises and SMEs. For example, 13% of co-ops were in the 100 to 499 employees firm size category, compared to 9%, 4% and 2%, respectively, of not-for-profit social enterprises, for-profit social enterprises and SMEs.²

² Note that throughout this report, statistics discussed in the text are rounded to nearest integer, while the statistics underlying the figures are unrounded.

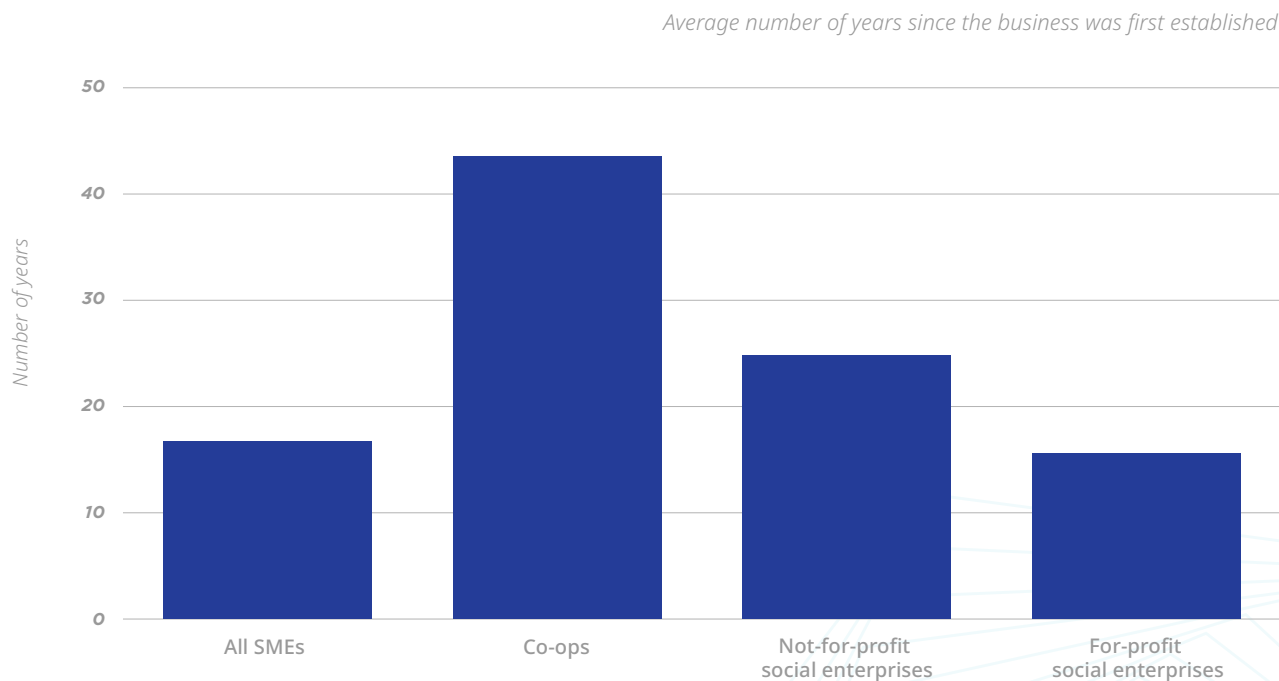
Figure 1: Co-ops and social enterprises are larger



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

Correspondingly, given that larger firms tend to be older firms, co-operatives were more likely to be older than not-for-profit social enterprises, which were older than both for-profit social enterprises and SMEs. Co-operatives were the most well-established businesses, with an average age of 44 years (Figure 2). Not-for-profit social enterprises also tended to be firms with a long history, having operated for an average of 25 years. By contrast, SMEs and for-profit social enterprises were, on average, 17 and 16 years old.

Figure 2: Co-ops and not-for-profit social enterprises are well-established businesses



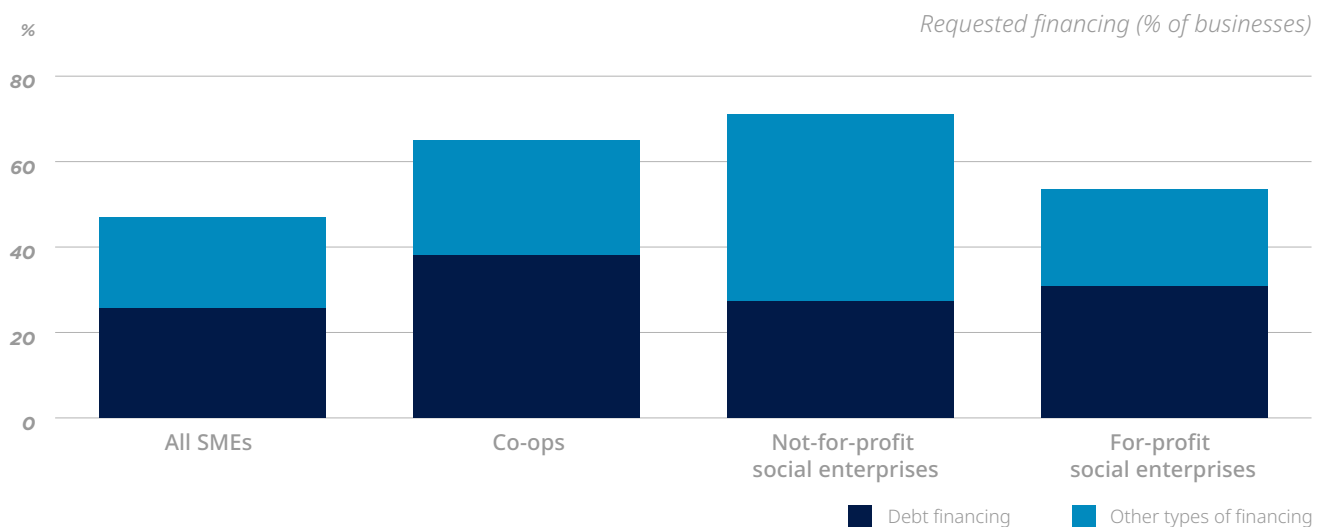
Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

3.2 FINANCING

In 2017, SMEs, co-operatives and social enterprises approached financing differently. Co-operatives and social enterprises more often requested financing, while approval rates for co-operatives and not-for-profit social enterprises were higher than those of SMEs. SMEs and for-profit social enterprises tended to rely on financing from domestic chartered banks, while co-operatives and not-for-profit social enterprises were more likely to borrow from credit unions. Finally, there is some evidence that social enterprises were not able to access financing as readily as SMEs or co-operatives, though overall access to financing did not appear to be a significant issue for any type of firm.

Not-for-profit social enterprises, co-operatives and for-profit social enterprises were more likely than typical SMEs to request financing: 71%, 65% and 54% of not-for-profit social enterprises, co-operatives and for-profit social enterprises sought financing (of any type), compared to 47% of SMEs (Figure 3). Not-for-profit social enterprises were particularly likely to seek government financing (i.e. grants, subsidies or non-repayable contributions), with 53% requesting financing from the government, compared to 4% of SMEs.

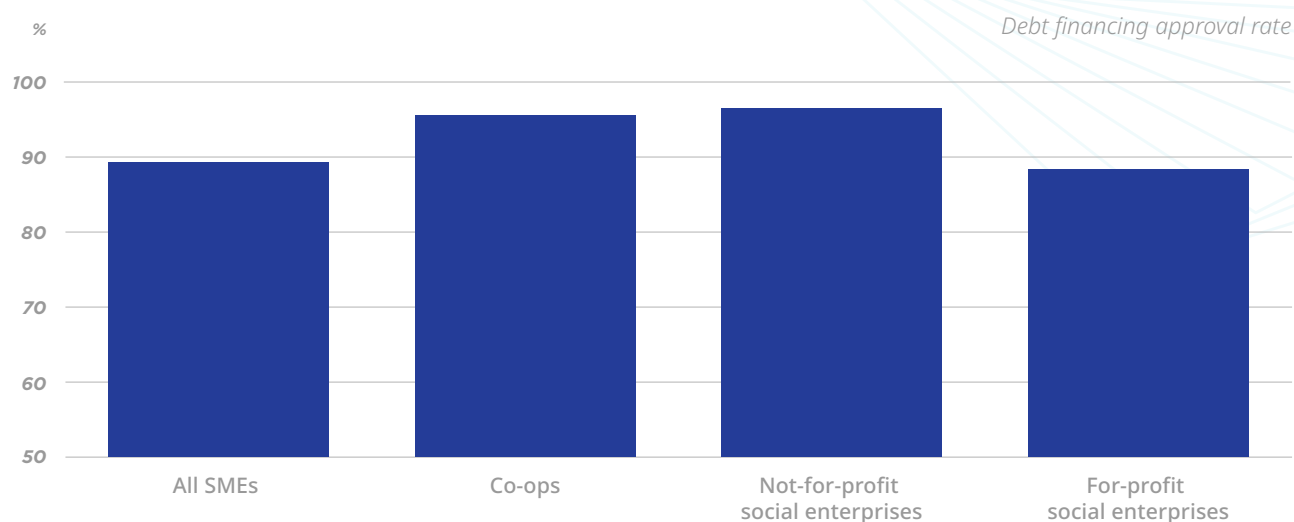
Figure 3: Co-ops and social enterprises are more likely to request financing



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

Requests for debt financing by co-operatives and not-for-profit social enterprises were more often approved than requests by SMEs or for-profit social enterprises. Figure 4 shows that 96% and 95% of debt financing requests made by not-for-profit social enterprises and co-operatives were approved, in contrast to 89% and 88% of requests by SMEs and for-profit social enterprises.

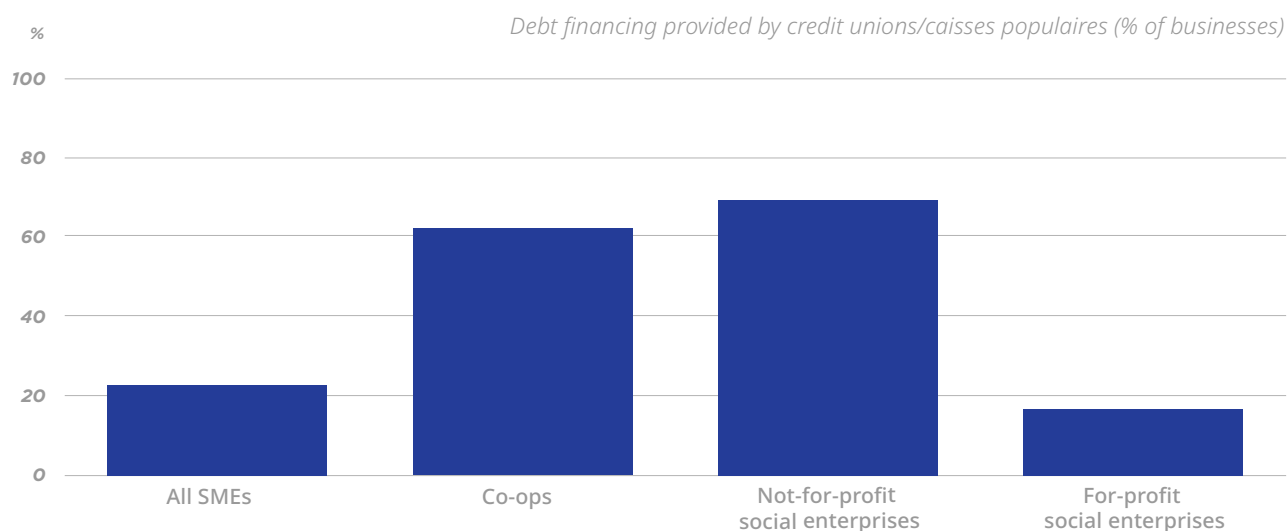
Figure 4: Not-for-profit social enterprises and co-ops have higher approval rates



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

Co-operatives and not-for-profit social enterprises tended to rely on credit unions for debt financing: 72% of not-for-profit social enterprises and 64% of co-ops that received debt financing obtained their financing from credit unions, compared with 24% of SMEs and 17% of for-profit social enterprises (Figure 5). By contrast, SMEs and for-profit social enterprises tended to receive debt financing from domestic chartered banks.

Figure 5: Credit unions are an important source of financing for co-ops and not-for-profit social enterprises

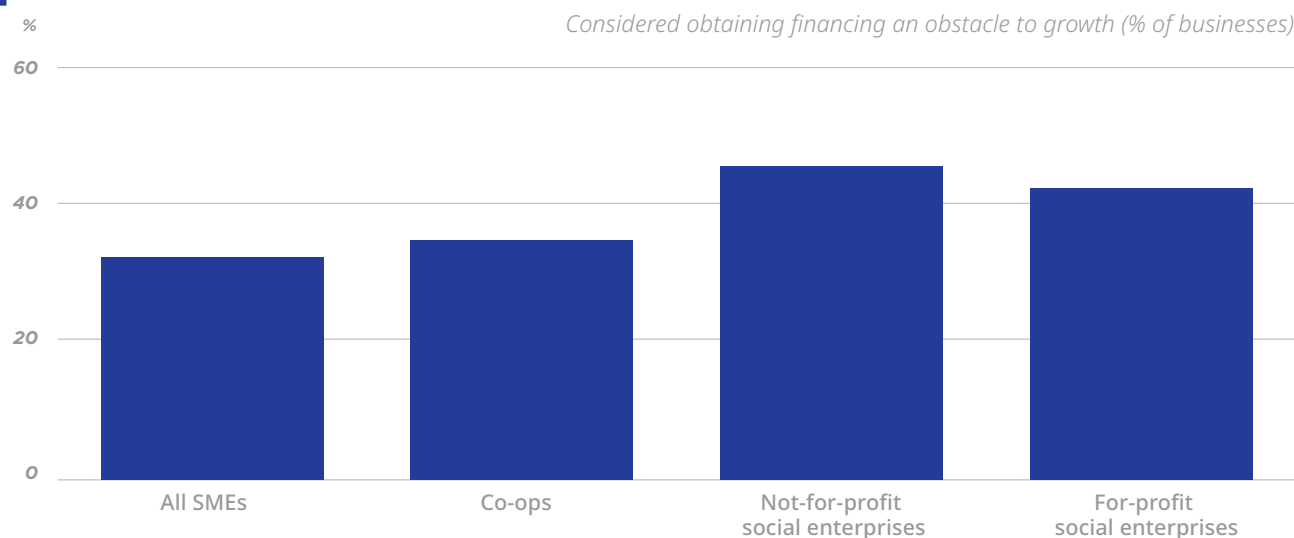


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

Broadly speaking, firms of all types that required financing were able to access it. However, there is some evidence that social enterprises may have had relatively more difficulty accessing financing.

First, more social enterprises than SMEs or co-operatives considered obtaining financing to be an obstacle to growth: 48% of not-for-profit social enterprises and 45% of for-profit social enterprises reported obtaining financing to be a minor, moderate or major obstacle to growth, compared to 37% of co-operatives and 34% of SMEs (Figure 6).

Figure 6: Social enterprises may have relatively more difficulty accessing financing



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

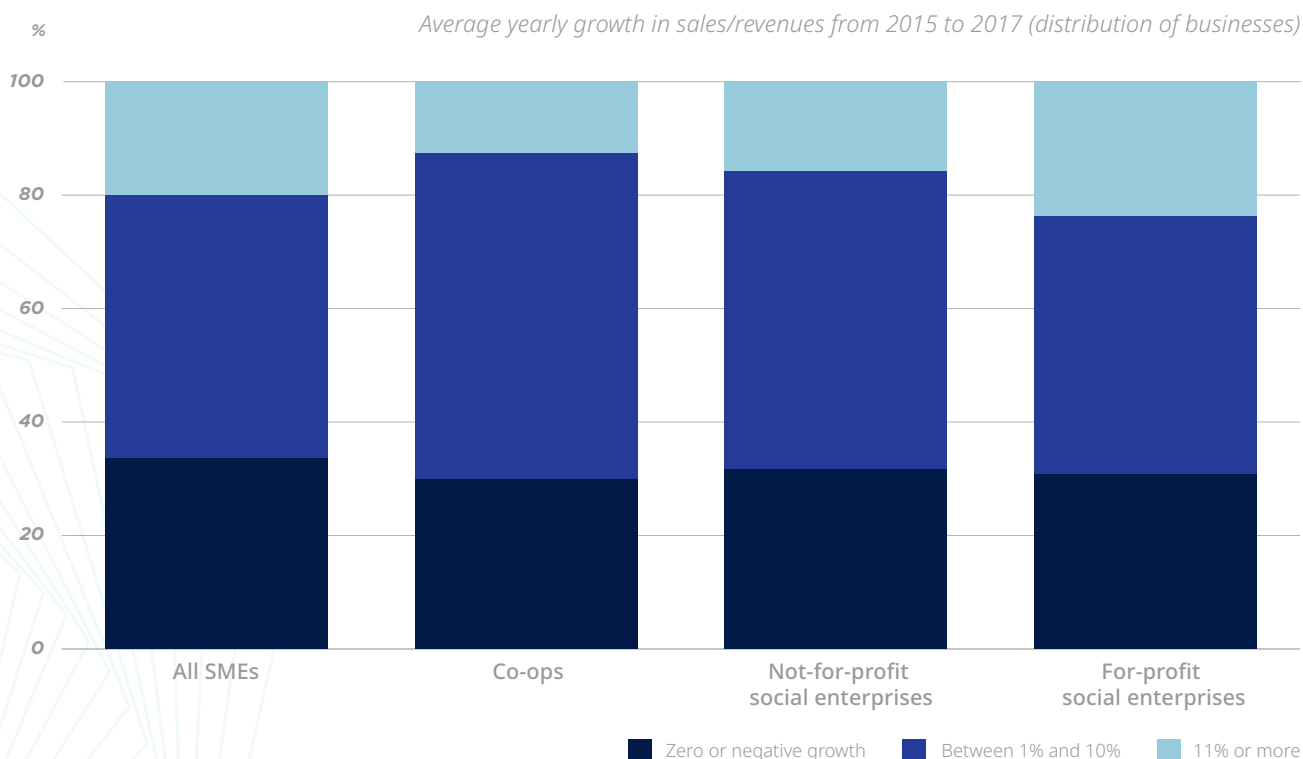
Furthermore, while nearly all SMEs, co-operatives and social enterprises that did not seek financing were non-seekers because they did not require financing, this rate was lower for social enterprises. Seventy-nine percent of not-for-profit social enterprises and 76% of for-profit social enterprises that did not seek financing did not require it, compared to 91% of non-seeking SMEs and 96% of non-seeking co-operatives.

3.3 GROWTH ACTIVITIES

Statistics on the growth activities of SMEs, co-operatives and social enterprises suggest that, in 2017, for-profit social enterprises were more likely to grow, to export and to intend to expand. Social enterprises and co-operatives were adopters of new technology and innovators. Finally, social enterprises were more likely to sell to the federal government.

In 2017, for-profit social enterprises had grown more, and expected to continue to grow more, than other types of firms. As shown in Figure 7, 24% of for-profit social enterprises experienced growth, on average, of 11% or more between 2015 and 2017, compared to 20% of SMEs, 16% of not-for-profit social enterprises and 13% of co-operatives.

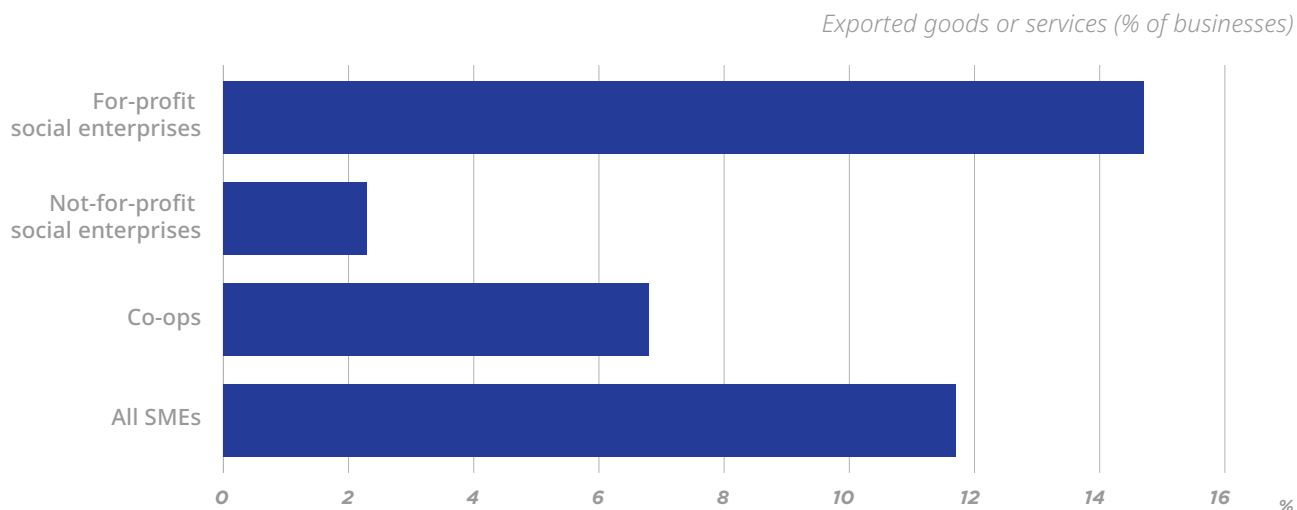
Figure 7: For-profit social enterprises are high performing



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

For-profit social enterprises and SMEs were more active in export markets, with 15% of for-profit social enterprises, and 12% of SMEs selling goods or services in other countries (Figure 8). By contrast, co-operatives and not-for-profit social enterprises were less likely to export.

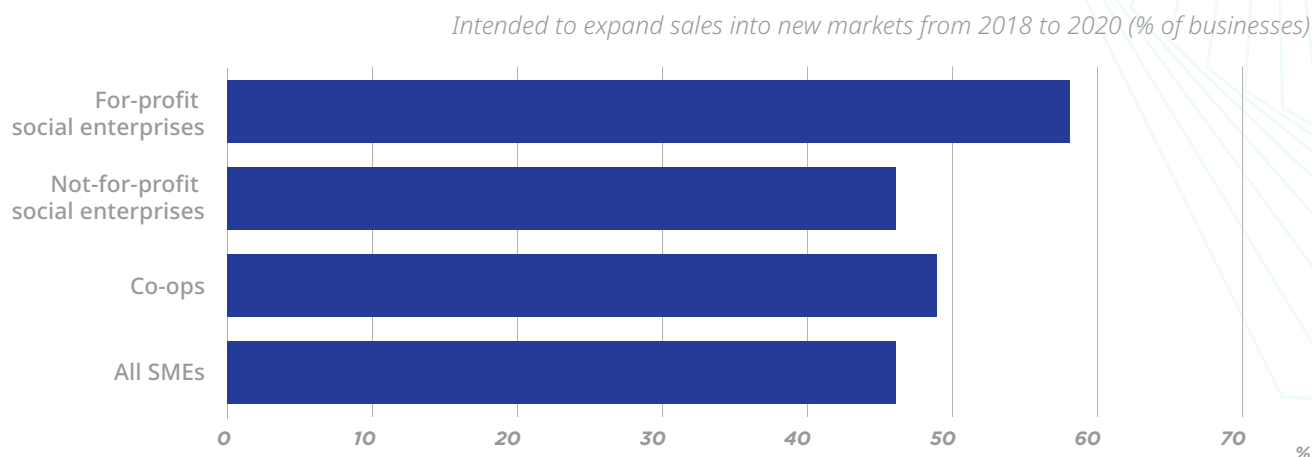
Figure 8: For-profit social enterprises are exporters



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

For-profit social enterprises reported that they tended to expand and expected to grow. Figure 9 shows that 58% of for-profit social enterprises intended to expend sales into new domestic and international markets between 2018 and 2020, compared to 49% of co-operatives, 46% of SMEs and 46% of non-profit social enterprises. Likewise, for-profit social enterprises were more likely than other types of firms to expect to grow between 2018 and 2020.

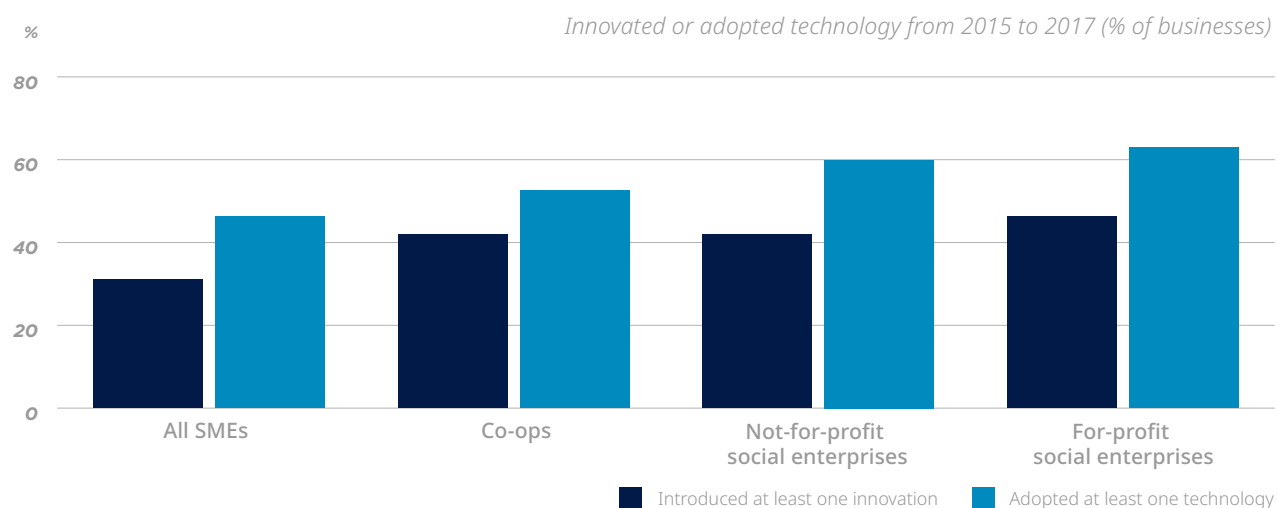
Figure 9: For-profit social enterprises are high potential firms



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

Social enterprises and co-operatives were more likely than SMEs to innovate and to adopt new technology. As shown in Figure 10, 46%, 42% and 42%, respectively, of for-profit social enterprises, not-for-profit social enterprises and co-operatives had introduced an innovation between 2015 and 2017, compared to 31% of all SMEs. Similarly, 63%, 60% and 53%, respectively, of for-profit social enterprises, not-for-profit social enterprises and co-operatives had adopted at least one new technology (e.g. cloud computing or data analytics) between 2015 and 2017, compared to 46% of all SMEs.

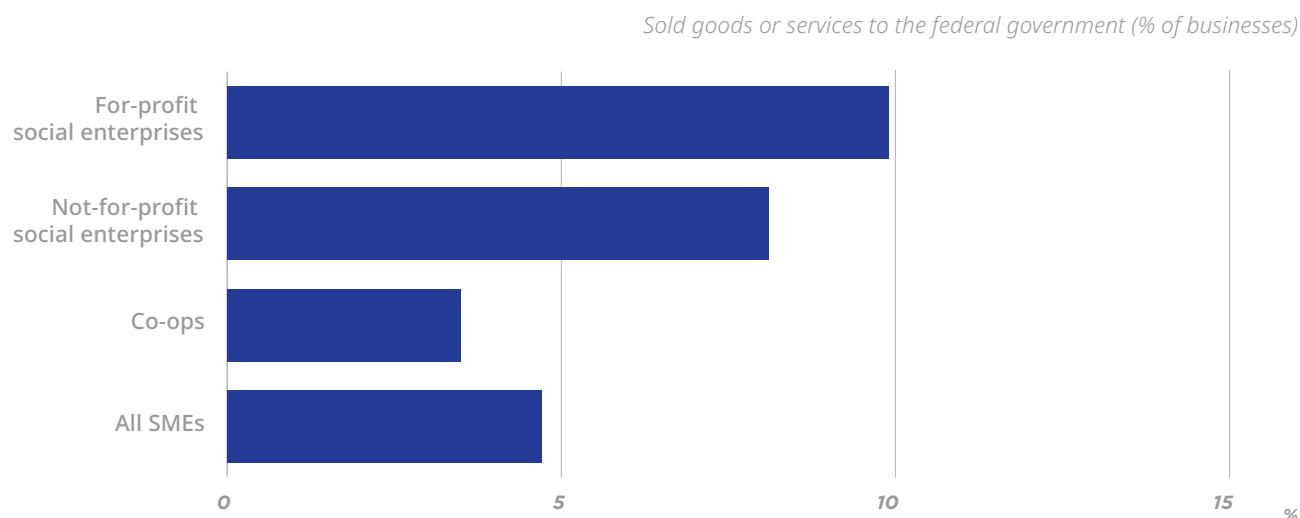
Figure 10: Social enterprises and co-ops are innovative and open to new technology



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

The federal government was an important purchaser of goods and services sold by social enterprises, with 10% of for-profit social enterprises and 8% of not-for-profit social enterprises selling to the federal government (Figure 11). By contrast, 5% of SMEs and 4% of co-operatives were suppliers to the federal government.

Figure 11: Social enterprises sell to the federal government



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

3.4 OWNERSHIP

In 2017, there were broad differences in the demographics of the primary decision makers and majority ownership of SMEs, co-operatives and social enterprises. For example, for-profit social enterprises and SMEs were more likely to be operated by individuals born outside of Canada, while not-for-profit social enterprises and co-operatives were closely linked to Francophone Canadians. Likewise, the majority ownership of SMEs, co-operatives and social enterprises differed along demographic dimensions, notably gender and visible minority status.

With 27% of for-profit social enterprises and 25% of all SMEs having primary decision makers born outside of Canada in 2017, for-profit businesses were much more likely than not-for-profit social enterprises (8%) or co-operatives (6%) to be run by individuals who immigrated to Canada (Figure 12).

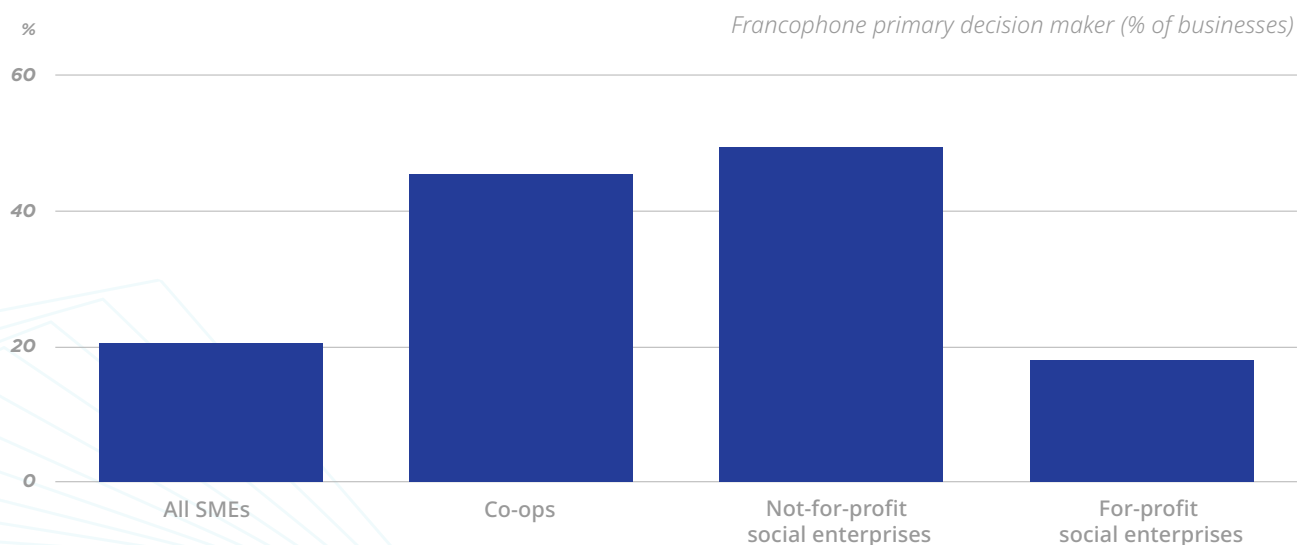
Figure 12: For-profit social enterprises and SMEs are more likely to be operated by individuals born outside of Canada



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

Co-operatives and non-for-profit social enterprises were often run by Francophone Canadians. In particular, 51% of not-for-profit social enterprises and 47% of co-operatives had primary decision makers who spoke French as their mother tongue, compared to 21% of all SMEs and 19% of for-profit social enterprises (Figure 13).

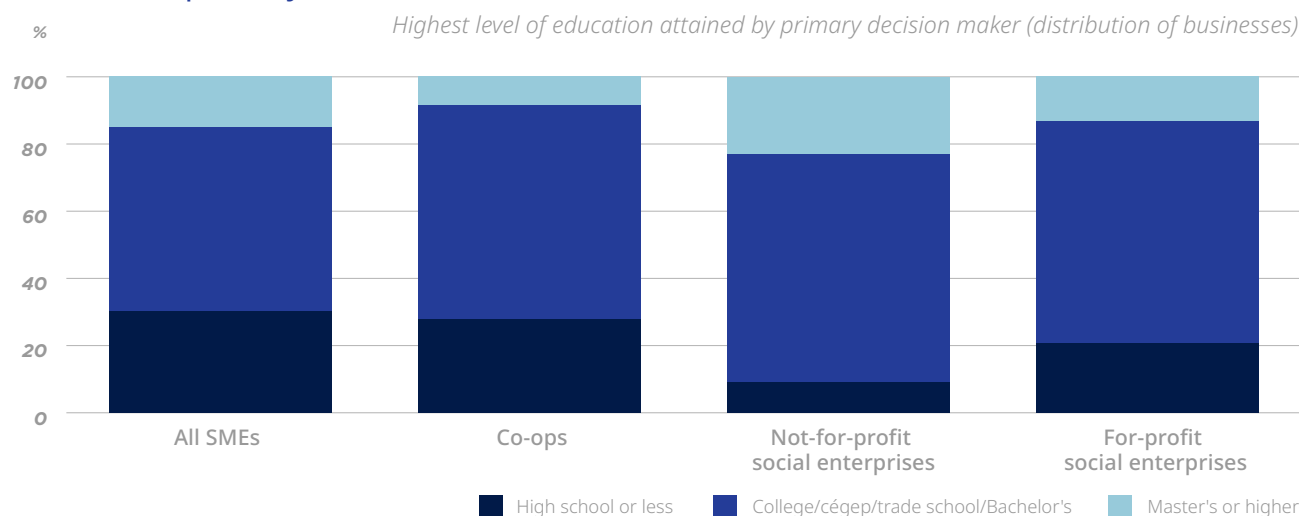
Figure 13: Not-for-profit social enterprises and co-ops are more closely linked to Francophone Canadians



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

The primary decision makers of social enterprises tended to be well educated: 91% and 79%, respectively, of not-for-profit social enterprises and of for-profit social enterprises had primary decision makers who had completed post-secondary education, compared to 72% of co-operatives and 69% of all SMEs (Figure 14). Notably, primary decision makers of not-for-profit social enterprises were also more likely to have completed graduate-level education.

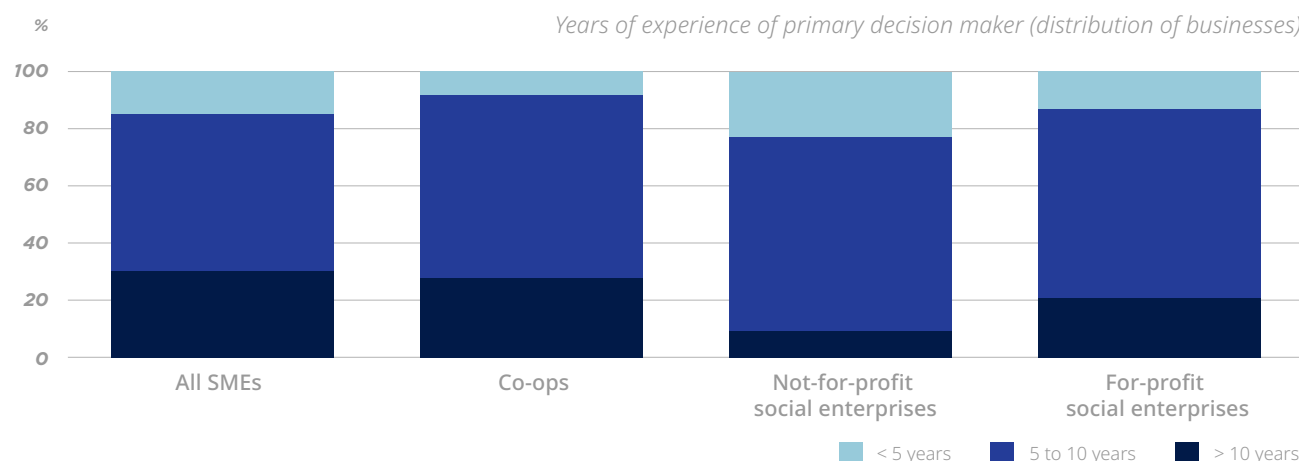
Figure 14: Not-for-profit social enterprises and for-profit social enterprises have well educated primary decision makers



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

With 12% of not-for-profit social enterprises having primary decision makers with 5 or fewer years of experience, compared to 7% of all SMEs, 7% of co-operatives and 6% of for-profit social enterprises, not-for-profit social enterprises were more likely to be run by individuals new to making primary decisions (Figure 15). Likewise, not-for-profit social enterprises were less likely to have primary decision makers with 10 or more years of experience.

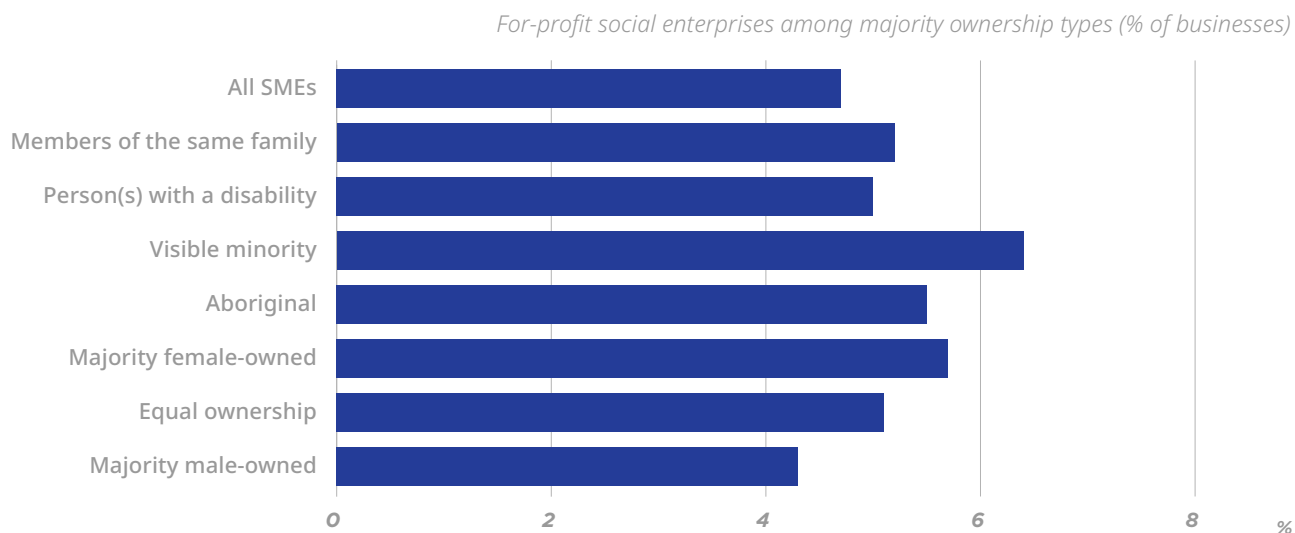
Figure 15: Primary decision makers of not-for-profit social enterprises have less experience



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

As shown in Figure 16, 5% of all SMEs were for-profit social enterprises that reinvested a significant portion of their profits towards social, environmental or cultural objectives. Within every demographic of majority ownership, for-profit social enterprises made up a sizable proportion of all businesses.

Figure 16: For-profit social enterprises are found among all majority ownership types³

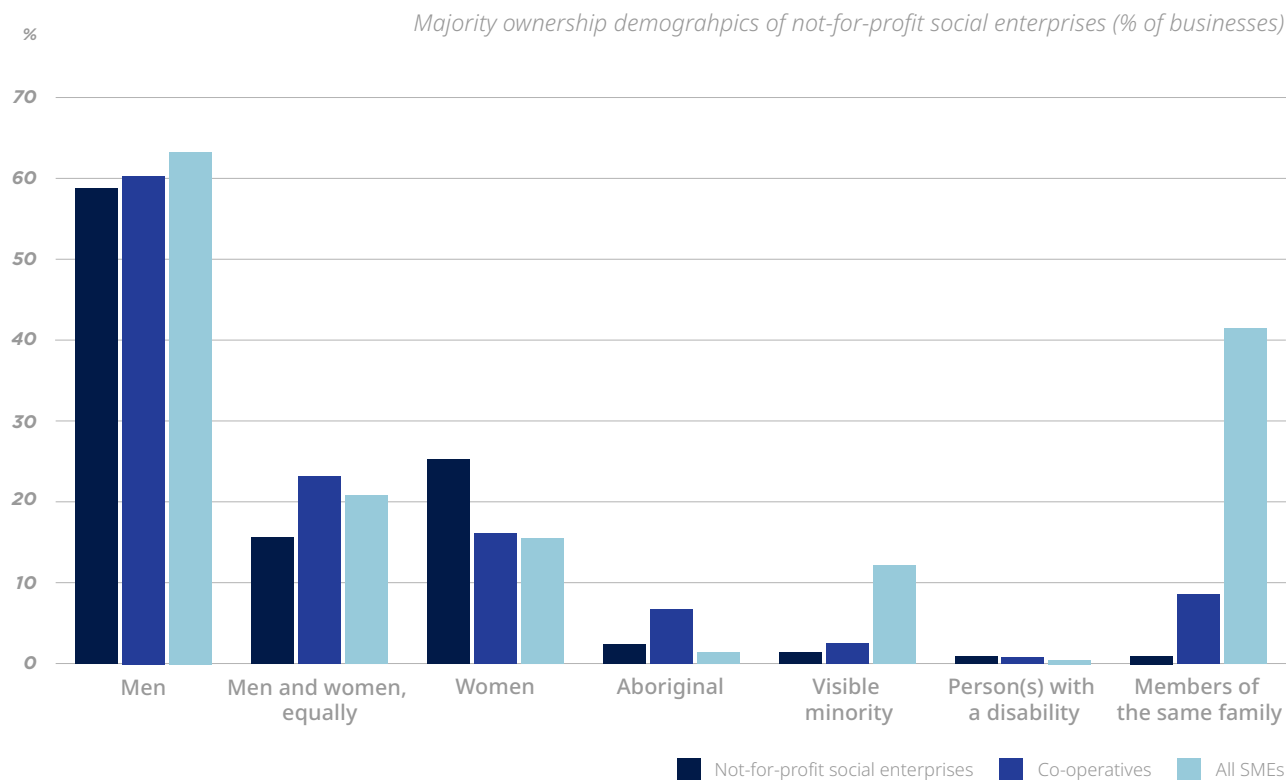


Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

Not-for-profit social enterprises were more often majority-owned by women than both traditional SMEs and co-operatives: 25% of not-for-profit social enterprises were majority female-owned, compared with 16% of all SMEs and 16% of co-operatives (Figure 17). Visible minorities were, by contrast, relatively uncommon among not-for-profit social enterprise ownership. In contrast to the 12% of all SMEs majority-owned by visible minorities, 1% of not-for-profit social enterprises were majority-owned by visible minorities. Interestingly, co-operatives were more likely than both not-for-profit social enterprises and traditional SMEs to be majority-owned by Aboriginal people(s).

³ The questionnaire used in the 2017 *Survey on Financing and Growth of Small and Medium Enterprises* employs the term Aboriginal persons in referring to those persons who identify with at least one Aboriginal group (i.e., North American Indian, Métis or Inuit). As such, Aboriginal persons has been used throughout this report. In keeping with the federal government currently embracing First Nations, Métis and Inuit as Indigenous Peoples, however, and as future surveys adopt this practice, use of the term Aboriginal persons will be phased out in Small Business Branch publications and will instead be replaced with the term Indigenous Peoples.

Figure 17: Not-for-profit social enterprises are more likely to be majority-owned by women and less likely to be majority-owned by visible minorities



Source: Statistics Canada, *Survey on Financing and Growth of Small and Medium Enterprises*, 2017.

4 CONCLUSION

This report offers new insights, based on results from the 2017 *Survey on Financing and Growth of Small and Medium Enterprises*, into the financing and growth activities of social enterprises in Canada. This is an important step towards addressing the lack of data for the sector, which is of increasing interest to policymakers.

The results show that, measured by firm size and age, co-operatives, social enterprises and SMEs were very different types of firms. Co-operatives were both larger and older than social enterprises or SMEs, while social enterprises were, in turn, larger and older than SMEs. Co-operatives, social enterprises and SMEs also approached financing differently. For example, co-operatives and social enterprises were more likely than SMEs to request financing, while approval rates for co-operatives and not-for-profit social enterprises tended to be higher. Co-operatives, social enterprises and SMEs also grew, and approached growth activities, differently. For-profit social enterprises were likely to grow and to expect to grow, while social enterprises and co-operatives were likely to be innovators and adopters of new technology. Finally, the results show broad differences in the demographics of both the primary decision makers and the majority ownership of co-operatives, social enterprises and SMEs. As an example, not-for-profit social enterprises were more likely than co-operatives or SMEs to be majority-owned by women.