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## SURVEY ON FINANCING AND GROWTH OF SMALL AND MEDIUM ENTERPRISES, 2017

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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 (SMEs), and to collect information on recent attempts by SMEs to obtain new financing. In addition, the survey gathers data on SMEs' growth activities and on business owner characteristics.

The 2017 survey questionnaire was adapted from questionnaires used for previous iterations of the *Survey on Financing and Growth of Small and Medium Enterprises* (2011 and 2014), and from questionnaires used for the *Survey on Financing of Small and Medium Enterprises* (2000, 2004 and 2007).

## SUMMARY OF RESULTS

Key results from the 2017 *Survey on Financing and Growth of Small and Medium Enterprises* are described below. The *data tables* provide detailed statistics by business size, region, census metropolitan area, industry, export status, growth characteristics, age of business, innovation activity, intellectual property (IP) holdings, government procurement activity and co-operative status, as well as owner age, education, place of birth and gender.

The 2017 tables introduce a range of new statistics. In particular, the tables offer new information on SME financing and growth by intellectual property awareness and legal incorporation status, and for Clean Technology firms and Social Enterprises. The tables also provide new insight into alternative lenders, international business activities, technology adoption, external consultants and succession planning, as well as majority ownership by person(s) with a disability and family members. Finally, the tables present a wider range of statistics on SME exporting than was available in past survey iterations, expanding the list of export destinations, and re-introducing export intensities and the breakdown of exports between goods and services.

### Financing Characteristics

In 2017, 47 percent of SMEs requested external financing. Twenty six percent of all SMEs requested debt financing, 26 percent requested trade credit, 7 percent requested lease financing, 4 percent requested government financing and 1 percent requested equity financing.<sup>1</sup>

Of the 53 percent SMEs that did not request financing, ninety-one percent did not require financing. Two percent of SMEs not requesting financing considered applying for financing to be too difficult or time consuming, 1 percent were discouraged borrowers (i.e. believed their request would be

turned down), 1 percent were unaware of available sources of financing and 1 percent thought financing would be too costly.<sup>2</sup>

In 2017, 93 percent of the dollar amount of debt financing requested by SMEs was authorized (Table 1). Financing was more often requested by and approved for larger firms, for which the request rates, approval rates and ratios of amount authorized to amount requested were higher than those of smaller firms.

**Table 1: Debt Financing Request and Approval Rates by Size of Business, 2017\***

		Request rate	Approval rate	Amount authorized/requested
		%		
All SMEs		25.6	89.2	92.8
Size of Business (number of employees)	1-4	19.7	87.1	89.8
	5-19	31.6	88.7	91.0
	20-99	35.4	94.5	94.6
	100-499	36.7	98.8	97.7

\* A request that was fully or partially approved was considered "approved".

On average, SMEs paid interest rates of 5 percent for non-residential mortgages, lines of credit and term loans, and of 18 percent for credit card financing.

Seventy percent of SMEs that received debt financing obtained it from chartered banks, the main suppliers of debt financing to SMEs in 2017. Twenty-four percent, 9 percent and 2 percent of SMEs that received debt financing were supplied, respectively, by credit unions, government and alternative lenders (e.g. online alternative lenders, crowdsourcing or peer-to-peer lenders).<sup>3</sup> Smaller businesses were more likely to obtain financing from credit unions, while larger businesses were more likely to borrow from chartered banks.

<sup>1</sup> SMEs may have requested more than one type of external financing.

<sup>2</sup> The remaining 3 percent of SMEs that did not request financing did not specify a reason for not seeking financing.

<sup>3</sup> SMEs may have received external financing from more than one supplier.

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December 2018



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## Owner Characteristics

In 2017, most SMEs were male-owned: 64 percent were majority male-owned, 16 percent were majority female-owned and 21 percent were owned equally by men and women.<sup>4</sup>

Members of the same family, visible minorities, aboriginals and person(s) with a disability, respectively, held the majority ownership of 42 percent, 12 percent, 1 percent and 1 percent of SMEs.

The primary decision makers of SMEs tended to be older, with 59 percent being 50 years of age or older; to be well-established in Canada, with 75 percent born in Canada and the remaining 25 percent, who were born outside of Canada, having resided in Canada for an average of 27 years; to be experienced, with 72 percent having 10 or more years of management or ownership experience; and, to be well-educated, with 70 percent having attained a post-secondary diploma or degree.

## Sales Destinations

In 2017, 12 percent of SMEs exported, of which 41 percent exported goods only, 47 percent exported services only and 12 percent exported both goods and services.

Eighty-seven percent of SME exporters sold to the United States, 26 percent to European countries (excluding the United Kingdom), 17 percent to the United Kingdom, 12 percent to Asian countries (excluding China, India and Japan), 9 percent to Mexico, 8 percent to China, 7 percent to Latin American countries (excluding Mexico and Brazil), 6 percent to Japan and 5 percent to India.<sup>5</sup> Of the 88 percent of SMEs that did not export, 94 percent did not export because of the local nature of their businesses.

Most exporters did not face major obstacles to exporting. No more than 8 percent of exporting SMEs considered any single issue (e.g. administrative, border, logistical, market knowledge, intellectual property and financial issues) to be a major obstacle to selling abroad.

Many SMEs sold beyond their local markets, with 45 percent selling outside of their municipality/region and 20 percent selling to other provinces or territories (Table 2). Larger SMEs were more likely to sell beyond their local markets and export. Likewise, larger SMEs had a higher proportion of sales outside their local area than did smaller SMEs.

**Table 2: Sales Destinations by Size of Business, 2017**

		Within local municipality or region	Outside of local municipality or region but within province/territory	Rest of Canada	Outside Canada (export sales)
		Propensity (Percentage of Businesses)			
All SMEs		92.5	45.4	19.8	11.7
Size of Business (number of employees)	1-4	91.1	40.8	17.0	9.9
	5-19	95.1	50.3	20.8	12.0
	20-99	93.1	51.9	28.1	17.0
	100-499	86.9	58.2	39.5	29.1

<sup>4</sup> Percentages total more than 100% due to rounding.

<sup>5</sup> Eighteen percent of SMEs exported to other destinations. Note that exporting SMEs may have sold to more than one destination.

<sup>6</sup> The survey defines a non-disclosure agreement as 'a legal contract between at least two parties that outlines confidential material, knowledge, or information that the parties wish to share with one another for certain purposes, but wish to restrict access to by third parties'.

<sup>7</sup> SMEs may have adopted more than one type of technology.

## Growth Characteristics

Sixty-six percent of SMEs reported positive average yearly growth in sales or revenues between 2015 and 2017. In particular, the sales of 46 percent of SMEs grew by 1 to 10 percent per year, while the sales of 12 percent of SMEs grew by 11 to 20 percent per year. The sales of 8 percent of SMEs grew by more than 20 percent per year. The sales of 20 percent of SMEs did not grow, while sales declined for 13 percent of firms.

In 2017, the most common major obstacle to growth was the rising costs of inputs (reported by 20 percent of SMEs). Other major obstacles of growth included recruiting and retaining skilled employees (19 percent of SMEs), government regulations (19 percent), shortage of labour (18 percent), increasing competition (17 percent), corporate tax rates (17 percent), fluctuations in consumer demand (16 percent) and maintaining sufficient cash flow or managing debt (15 percent) and. Only 8 percent of SMEs considered obtaining financing to be a major obstacle to their growth.

## Innovation Activity, Intellectual Property and Technology Adoption

Thirty-one percent of SMEs introduced at least one type of innovation between 2015 and 2017 (Table 3). Nineteen percent introduced a product innovation, 14 percent a marketing innovation, 13 percent an organizational innovation and 13 percent a process innovation.

**Table 3: Innovation, Intellectual Property Holdings and Technology Adoption, by Size of Business, 2017**

		Introduced at least one type of innovation (2015 to 2017)	Held at least one type of intellectual property (as of December 2017)	Adopted at least one technology (2015 to 2017)
		%		
All SMEs		31.1	26.9	46.3
Size of Business (number of employees)	1-4	24.2	22.3	40.4
	5-19	38.7	28.3	49.1
	20-99	42.4	43.4	62.2
	100-499	53.5	66.1	78.8

Twenty-seven percent of SMEs held intellectual property. Twenty-one percent were party to non-disclosure agreements,<sup>6</sup> the most commonly held intellectual property. Nine percent of SMEs held trademarks, five percent trade secrets, 2 percent patents and 1 percent industrial designs.

Forty-six percent of SMEs adopted at least one type of technology between 2015 and 2017. Twenty-nine percent adopted cloud computing, 21 percent data analytics, 16 percent customer/supplier relationship management software, 9 percent application programming interface and 7 percent enterprise resource planning software.<sup>7</sup> Fifty-four percent of SMEs had a website in 2017, most often used for listing marketing or contact information.

Larger SMEs were more likely than smaller SMEs to innovate, hold intellectual property and adopt technology.

## METHODOLOGY

The 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 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 survey was conducted by Statistics Canada from February to May 2018. The sample size was 17,323 SMEs with a response rate of 59.7 percent.

## NOTES

For more information, or to enquire about the concepts, methods or data quality of the survey results, contact Statistics Canada (toll-free 1-800-263-1136; STATCAN.infostats-infostats.STATCAN@canada.ca).

For additional information on related research topics and data sets, consult the SME Research and Statistics website ([www.ic.gc.ca/eic/site/061.nsf/eng/Home](http://www.ic.gc.ca/eic/site/061.nsf/eng/Home)) or contact Richard Archambault (343-291-1798) or Lyming Huang (343-291-1792) at the Small Business Branch.

## Acknowledgements

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