Report on Small Business in Canada

Prepared by
Small Business Policy Branch
Industry Canada

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1.0 INTRODUCTION

Small enterprises are an important force in the Canadian economy. There are some 2 million businesses in Canada, half of which employ at least one person. Of these, 98 percent have fewer than 100 employees, and 95 percent have fewer than 50. Small business employers provide one of every three jobs. In addition, many jobs, not counted in these figures, are performed by self-employed workers who are not on a payroll.[1] While there are some differences, the national distribution of small businesses and employment is fairly uniform in every province and in many industry sectors in Canada.

Canada also enjoys the benefits of having a strong entrepreneurial culture. Entrepreneurship, the process whereby individuals create and build new firms, is closely linked with small business development. The OECD suggests entrepreneurship is central to the function of market economies, and entrepreneurs are "essential agents of change who accelerate the generation, application and spread of innovative ideas and in doing so .... not only ensure the efficient use of resources but also expand the boundaries of economic activity." Canada performs well in measures of entrepreneurship, relative to other countries, ranking second in entrepreneurial activity among the G7, as measured in the Global Entrepreneurship Monitor 2001.

Small business is often referred to as the "engine of growth" in the Canadian economy. It has been responsible for a significant proportion of new jobs created and value-added to the economy during the last decade. There is little doubt that the ability of this sector to compete and grow in today's global, knowledge-based economy (KBE) is essential to Canada's long-term prosperity.

Canada has long adopted and supported policies to foster entrepreneurship and support the growth of small businesses. Between the federal and provincial/territorial governments, an extensive support infrastructure has been established, involving many organizations. Governments play an important role in designing and implementing supportive business or framework policies in such areas as taxation, fiscal management, regulation, trade, and employment. More direct assistance is also provided in a range of

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[1] A key difficulty with small business data is that you cannot add up payroll data and labour force data - they are certain to overlap, particularly among the smallest size categories. See Annex A for more detail.

areas, including financing, productivity and technology enhancement, skills development and information services.

Within this mosaic of government support for small business and entrepreneurship, the current federal small business policy agenda, launched in 1994, specifically aims to encourage growth and competitiveness of firms. This is done through two basic thrusts: making sure the business environment is conducive to small business growth, and ensuring that limited government resources are effectively targeted to enhance competitiveness and encourage growth in the new global economy.

Given the fast pace of change and the new challenges of the global KBE, periodic review of the performance of the small business sector and the impact of policy on performance is necessary to determine whether the policy framework is achieving its objectives, and will continue to support and optimize growth in the new business environment.

A key challenge in developing small business policies is identifying a target market, given that most businesses fall into the category of "small business". Furthermore, this huge segment of the economy is very heterogeneous, with few commonly defined interests. A balance must be struck between targeted policies that benefit a minority, and broader policies with less direct impact but broader reach. In addition, given the size and scope of its target market, small business policy is, more or less, business environment policy, and business environment policy covers a broad area, influenced by all orders of government. Articulating a coherent policy framework at the federal level requires an understanding of the initiatives of other orders of government.

The purpose of this document is to provide stakeholders in the small business sector with information to begin a discussion on the effectiveness of the current small business policy framework in Canada - and on whether changes are required. It includes a review of progress made on the 1994 small business policy agenda, an assessment of the performance the small business sector in Canada based on a selection of indicators, and a discussion of the factors influencing growth in small business. A detailed statistical analysis of the sector is provided as an annex.

2.0 CANADA'S SMALL BUSINESS POLICY AGENDA

2.1 Growing Small Businesses

Canada's current small business policy agenda was first described in a companion paper to the 1994 Federal Budget. Released by the federal Ministers of Industry and Finance, *Growing Small Businesses* responded to economic stakeholders who called for a new policy approach and the dismantling of a system of business subsidies. This strategy has two basic thrusts:

Ensure that the business environment is conducive to small business growth. This means ensuring that the tax system does not inhibit growth and job creation, improving the availability of financing for small businesses, cutting back on the regulatory burden, and making the delivery of services effective and efficient.

Target limited government resources more effectively to enhance competitiveness and encourage growth in the new global economy. This means redefining the role of government to emphasize the provision of strategic information and expertise, rather than subsidies. Further, it means critically reviewing and re-engineering small business support policies in the areas of management, labour skills development, trade and marketing, technology, and capital for growth.

The first thrust aimed to create a business environment favourable to growth through reform of four systems of governance, namely taxation, financing, regulation and business support services. Business and government agreed that improvements to these systems at home would help small businesses maximize their growth potential and meet their competition in global markets.

A review and restructuring of the system of delivering programs and services was also called for, beginning at the federal level. In 1994, Canada's small business support network consisted of a diverse and complex maze of independent delivery structures, characterized by overlap and duplication of programs and services. Government and business agreed that reform was required to improve the effectiveness and efficiency of service delivery to small businesses.

The second thrust of the 1994 small business agenda offered guidelines on how to re-focus federal business development policies. The guidelines helped government channel resources to two priority areas: the provision of strategic information and expertise on the markets, technologies and best practices useful to businesses, and the development of small business policies which targeted impediments to growth in small firms.

The 1994 small business policy agenda was part of a fundamental change in the federal policy development process. A 1991 study commissioned by business and government suggested that business support policies placed too high a priority on industrial development, and on "picking winners" among firms. It noted that these policies rarely distinguished between small and large firms, nor on building the overall competitive capacity of clusters of firms in global markets.[2] *Growing Small Businesses* reflects the broader, less targeted policy approach now taken by the federal government in supporting business.

In 1994, policy coherence on major strategic, horizontal issues facing government and the interdependence of economic policies was rarely considered until much later in the policy making process. A review of the federal government's policy capacity that began in 1994-95 supported this view by concluding that interdepartmental collaboration and system-wide consensus[3], at all stages of the policy development process, was necessary to support the key engines of economic growth - trade, science and technology and small business.[4]

In addition, in order to be truly effective, small business stakeholders needed to be consulted on the development of the overall economic strategy affecting their growth and competitiveness. Therefore, consultations with small business stakeholders on the small business agenda were undertaken early in the policy-making process. Throughout 1994, the government consulted with public and private sector stakeholders to ensure that Canada's new small business policy approach had the greatest potential to strengthen the economy and prepare Canadians for the global economy of the 21st century. These consultations resulted in a number of reports:

- *Financing in the New Economy,* an Industry Canada led task force report (June 1994)
- *Federal Ontario Liberal Caucus Task Force Report on Small Business Financing* (August 1994)

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[2] Porter, M. E.: *Canada At The Crossroads: The Reality of a New Competitive Environment,* Business Council on National Issues and the Government of Canada, October 1991, pages 73-74.

[3] Canada, Privy Council Office, *Strengthening Our Policy Capacity,* December 1996.

[4] Canada, Privy Council Office, *Getting Government Right: A Progress Report,* March 7, 1996, pages 10-11.

- *International Business Development Review Report,* Steering Committee on International Trade (September 1994)
- *Taking Care of Small Business,* Report of the Standing Committee on Industry (October 1994)
- *Breaking Through Barriers: Forging Our Future*, Report of the Small Business Working Committee (November 1994)

The Small Business Working Committee, the private sector consultative mechanism proposed in *Growing Small Businesses*, was chaired by executives of two national business associations, the Canadian Federation of Independent Business (CFIB) and the Canadian Chamber of Commerce. The Report of the Committee, *Breaking Through Barriers,* represented the views of some 33 small business stakeholders who were members of other associations, as well as independent entrepreneurs and small business owners. These small business stakeholders made recommendations relating to improving the business environment and facilitating small business growth. The highest priorities of the Small Business Working Committee were aimed at the removal of three structural barriers - high levels of government debt, a complicated and burdensome tax system, and a regulatory system that costs businesses too much time and money.

The 1994 reports emerging from the small business consultations were consistent with the government's proposed new policy development framework as described in *Growing Small Businesses*. The framework was thus adopted.

In November 1994, the federal Minister of Industry integrated many of the recommendations and advice of small business stakeholders from the above consultations into *Building A More Innovative Economy (BMIE)* - an action plan of strategic initiatives for creating more and better jobs for Canadians. BMIE was the fourth in a series of major policy papers constituting the federal government's *Jobs and Growth Agenda* [5]. It outlined Canada's economic development strategy and the next stages of development for the small business policy agenda.

BMIE emphasized that government actions must be targeted on initiatives that complement the role of the private sector. Its overall action plan focused on four strategic areas[6] of economic weakness, policy objectives that remain valid today. They are:

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[5] The first three policy papers were: *Improving Social Security in Canada; A New Framework for Economic Policy;* and *Creating a Healthy Fiscal Climate.*

[6] Canada, Industry Canada, *Building A More Innovative Economy,* November 1994, pages 17-18.

- Create the right marketplace climate through policy, legislative and regulatory initiatives, to free the innovative capacities of small firms;
- Develop new mechanisms and policies to help firms make the most of domestic markets, and seize new commercial opportunities in global markets;
- Ensure that the transportation, telecommunications, and information networks allow firms to function effectively and efficiently; and
- Harness government's resources more creatively to help firms gain access to and invest in leading edge technologies, and scientific knowledge.

Specific actions included changes to the Small Business Loans Act, the launch of the Canada Business Services Centres and the Canada Community Investment Program, and the lowering of Unemployment Insurance premium rates. Initiatives to be further developed during the government's economic strategy from 1995 to 1998 would focus on increasing access to capital, encouraging innovative small businesses to start up and grow, reducing paper burden, eliminating duplication of programs among jurisdictions, improving training, and allowing for a more flexible and efficient application of regulations.

After several months of interdepartmental consultations on BMIE, the Ministers of Industry and Finance released in 1995 *Small Business: A Progress Report. A Progress Report* reinforced that the small business policy agenda would continue to measure the effect of the four key systems representing the business environment - taxation, financing, regulation and business support, and address specific problems facing small businesses in the areas of management, skills development, trade and marketing, technology and capital for growth.

A Progress Report also alerted small business stakeholders that progress on the small business agenda would require input from small businesses and from those who provide them with services - all orders of government, business associations, financial and educational institutions, and other intermediaries.

2.2 *Progress Made on Commitments*

Over the last seven years, there has been considerable progress on the commitments described in *Growing Small Businesses* and in *Building A More Innovative Economy.* In particular, the federal government has a strong record of achievement in fiscal management which has resulted in a dramatically improved business environment. The following sections provide an update on specific improvements in the business environment - in the systems of taxation, financing, regulations and delivery of business support, and in the targeting of government resources toward providing strategic information and expertise, rather than business subsidies.

Improving the Business Environment

2.2.1 *The Tax System*

Tax policy has a significant influence on economic growth and encouraging job creation. Until recently, the federal government has been constrained by large budget deficits. However, with the elimination of the deficit in 1997-98 and the first budget surplus in almost 50 years, the federal government acquired greater flexibility to adjust policy levers to encourage economic growth.

Starting with the 1998 Budget, the government began a program of new spending and tax reductions, while continuing to maintain its long-term fiscal strategy to reduce the debt. The initial tax cuts were aimed at low income earners. With continuing surpluses, the government announced significant reductions for all individuals and businesses in Budget 2000 and the Economic Update issued later that year. Budget 2000 also introduced other measures that were welcomed by the small business community. The federal government cut the capital gains inclusion rate to 50 percent from 75 percent and allowed for the deferral of capital gains from small business investments as long as the proceeds were reinvested in another small business.

The four year timetable to reduce the corporate tax rate from 28 percent to 21 percent, along with similar proposed reductions in provincial taxes in Ontario and Alberta, will reduce the combined federal-provincial corporate tax rate in those provinces (including capital taxes) to about 35 percent by 2005, 5 percentage points below the U.S. rate.[7]

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[7] Canada, Department of Finance, *Economic Statement and Budget Update*, October 18, 2000, page 102. Comparisons are with 2000 U.S. corporate taxes.

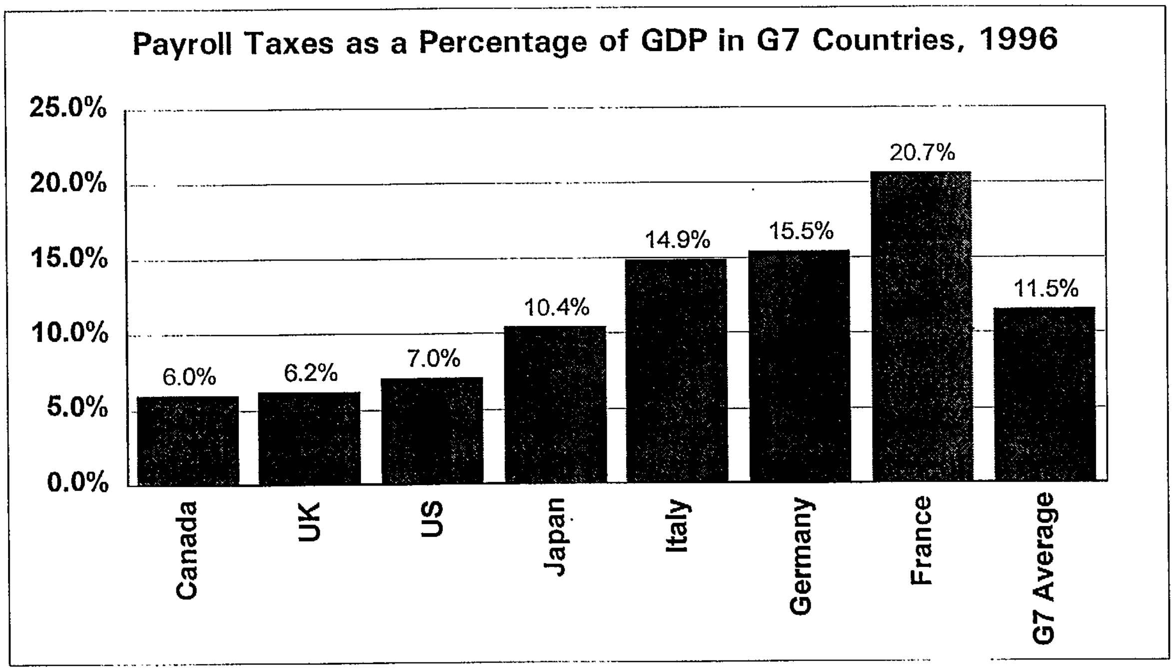
Rather than raising the Small Business Deduction threshold, the government chose to reduce the tax rate for business income between $200,000 and $300,000 to 21 percent, effective January 1, 2001. Incomes below $200,000 continued to be taxed at 12 percent. Once the general corporate tax rate is lowered to 21 percent, demands will likely be renewed to increase the Small Business Deduction threshold.

From a small business perspective, while the federal government has made progress on income taxes, it has yet to adequately address profit-insensitive taxes. Profit-insensitive taxes include payroll taxes which, at the federal level, are Employment Insurance (EI) and Canada Pension Plan (CPP) premiums. Provincial payroll taxes include Quebec Pension Plan (QPP), Workers' Compensation (WC) and various health and education taxes in several provinces. These taxes impose a disproportionate burden on small business, which tend to be more labour-intensive than larger firms.

Payroll taxes are an important source of revenue for both the federal and provincial governments. In 1992, the total amount of CPP/QPP, EI and WC premiums levied on corporations was greater than federal and provincial corporate income taxes combined. While payroll taxes grew considerably during the 1970's and 1980's they have stabilized at around 5.7 percent of Gross Domestic Product (GDP) since 1992. Comparatively speaking, Canadian payroll taxes are the lowest among major developed economies as a percentage of GDP (Figure 1).[8]

[8] Lin, Z., *Payroll Taxes in Canada Revisited: Structure, Statutory Parameters, and Recent Trends*, No. 149 (2001).

Figure 1



Source: OECD, 1998

2.2.2 Availability of Financing for Small Business

Growing Small Businesses noted that the vast majority of Canadian businesses, large or small, meet their financing needs through private capital market transactions with no public sector assistance. While equity and debt were the primary kinds of financing, non-traditional forms such as leasing were increasing in use. Since 1994, both the public and private sectors have taken measures to improve the availability of small business financing. Details on specific initiatives are provided below.

SBLA to CSBFA

The Canada Small Business Financing Act (CSBFA) is the cornerstone of the Federal Government's programs to assist small and medium-sized businesses (SMEs) in accessing the financing they need to grow their businesses. The program was formerly known as the Small Business Loans Act (SBLA).

A 1998 comprehensive review of the Act confirmed that a financing gap still existed, particularly for young, small firms in need of smaller amounts of financing, and that the CSBFA helped fill that gap. The findings of the 1998 review, along with recommendations from the Auditor General and the House of Commons Standing Committee on Industry, were used to update and strengthen the Program but its main focus stayed the same - debt financing of up to $250,000 for the expansion or modernization of small businesses with revenues under $5 million. The most substantive update was to change the subsidy nature of the Program to one in which fees are charged to offset the cost of claims, moving the Program toward cost-recovery. The review also included provisions for the creation of a pilot project to test the inclusion of capital leasing lending under the Program. The new CSBFA provides greater accountability with more precise information and performance measurements.

Growing Small Businesses called for a specific examination of personal guarantee levels under the SBLA. This followed-up on a debate held in 1993 regarding the potential elimination of personal guarantees from the SBLA in which borrowers favour their elimination while bankers disagreed. During the 1998 review, stakeholders from both the lending and borrowing sides agreed that the personal guarantee level of 25 percent was a necessary surety and had a positive impact on the soundness of the business, as well as the surety that the loan would be repaid. During Parliamentary debate on the extension of the SBLA it was noted that the personal guarantee rate for these loans was lower than that demanded by the banks or other lending institutions, although some lenders restricted their use of personal guarantees to significantly less than 25 percent, or did not demand personal guarantees at all. In 1999, regulatory changes were made to permit lenders to release personal guarantees if the loan were in good standing and the borrower had repaid at least 50 percent of the principal on the loan.

FBDB to BDC

Growing Small Businesses also committed to a review of the mandate of the Federal Business Development Bank (FBDB), to ensure that its programs and services continued to meet the needs of small businesses. As a result of this review, conducted in 1995, the federal government streamlined and modernized the FBDB into the Business Development Bank of Canada (BDC). Changes involved transforming the role of the Bank to be a complementary source of small business financing with the mandate to provide financial and management services jointly with other institutions. The BDC was given a commercial mandate that required it to be profitable and pay dividends, and to restructure its activities so that it would no longer require appropriations to cover operating expenses. As well, the BDC was directed by the government to focus its attention on knowledge-based industries (KBI) and exporters, and on specific initiatives for women entrepreneurs, Aboriginals and youth.

In addition, the five-year review of the BDC (1995-2000) was completed and tabled in Parliament. The report maps the migration of the BDC from a "lender of last resort" to a "complementary lender", and concludes that no substantive adjustments to its legislation or mandate are required at this time. The BDC has been successful in adapting to its new mandate and has supported Canadian entrepreneurship by providing financial and management services to more than 30,000 clients since 1995.

The review's overall results showed that there has been a 69 percent increase in loans committed to clients between 1995 and 2000. The total amount of new loans authorized went from $729 million in 1994-95 to $1.372 billion in 1999-2000, an increase of 88 percent. The total financing authorized for 2000-01 reached $1.652 billion.

This BDC financing supported higher-risk ventures that faced difficult financing challenges. Receiving this financing allowed these high-risk businesses to leverage private-sector dollars that would not have been available without the BDC. This leveraging resulted in $1.3 billion in complementary financing from other sources, bringing the total value of SME projects financed to an estimated $2.838 billion. These loans focused on SMEs, with 55 percent for amounts under $100,000, and 93 percent for amounts under $500,000. Furthermore, 47 percent of loans went to KBIs and exporters.

The BDC has also seen growth in support for venture capital. In 2000-01 the Bank's total venture capital commitment stood at $296 million, up from $44 million in 1994-95. Since its inception, BDC Venture Capital has invested approximately $400 million in more than 300 companies. These are Canada's fastest-growing SMEs, and almost all of them are KBIs.

Financial Sector Reform, Codes of Conduct, New Credit Provisions

Growing Small Businesses committed the government to review the proposed Code of Conduct developed by Canada's chartered banks, a "Model Code of Conduct for Bank Relations with Small and Medium-Sized Businesses", which was intended to clarify their relationship in lending to small business. The Code recognized the important role that SMEs play in Canada's economy and was established to promote a healthy and effective relationship between SMEs and the banking community -- the Canadian Bankers Association (CBA) and its members, the chartered banks of Canada. This model Code of Conduct now serves as a minimum standard for bank dealings with small businesses. The key elements of this Code of Conduct have been incorporated into individual bank codes. Each bank applies its own bank code to the business activities it has with its small business customers.

The Code of Conduct requires, among other things, that banks provide clients, whose applications have been declined, with the reason(s) for the decision, the requirements for reconsideration, and alternative sources of financing. In response to the call for a review of this Code of Conduct, extensive consultations were held by the Industry/Finance Task Force.

The CBA also undertook to determine the attitudes of small business regarding their financial institution and their relationship with that institution. The reports on *Small and Medium-Sized Businesses in Canada: An Ongoing Perspective Of Their Needs, Expectations And Satisfaction With Financial Institutions* completed in 1996, 1997 and 1998 by Thompson Lightstone and Company Limited for the CBA, specifically asked SMEs and banks for input on the adherence to the new Code of Conduct. While most bank managers indicated they provided clients with information on alternative sources of financing and the reasons why their application had been declined, SMEs recollection of receiving the information was less clear. While the reports said that 67 percent of account managers provided declined applicants with this information, fewer than half of these clients recalled being given the information.

Clients' recall of being advised of the requirements for reconsideration increased from 40 percent in 1996 and 1997 to 47 percent in 1998, while their rate of recall of receiving information on alternative sources of financing went from 11 percent in 1996 to 4 percent in 1998. Reports from bank managers on providing this information remained fairly steady at about three-in-five (61percent).

Starting in 1995 the banks established ombudsman offices to deal with complaints that could not be resolved through a bank's normal processes. Since then, the Canadian Bankers Association has introduced an alternative complaint resolution system and an independent ombudsman was established for the banking system. Overall, SMEs' awareness of the banks' complaint-handling and ombudsman programs rose from 17 percent in 1997 to 22 percent in 1998. The June 2001, Parliament established the Financial Consumer Agency of Canada. Among the services this agency will provide to SMEs is guidance on how to evaluate and select financial services.

There has also been a shift in the financial sector from term to demand lending. This has included gains in the use of operating credit such as small business credit cards, and the "bundling" of streamlined financial services to SMEs. It is not yet clear what impact this will have on SMEs' access to financing in general. There has also been a growing trend towards asset-based financing from new specialized finance companies such as leasing and credit card companies instead of traditional debt financing mechanisms from chartered banks.

Pilot Programs and Innovative Partnerships

Growing Small Businesses called on government to examine ways to encourage capital flows to growth-oriented businesses, including such initiatives as the proposed Canada Investment Fund. The subsequent Small Business Working Committee Report recommended a bottom-up approach aimed at increasing local investment by stimulating the activities of local informal investors. The Report also recommended a community-based program where governments would play a facilitation role only. The government responded with the Canada Community Investment Plan (CCIP), launched in 1995.

The 22 pilot projects that won Canada-wide competitions in 1996 and 1997 are now in the final stages of their 5-year mandates. A final evaluation of the CCIP has assessed its ability to increase access to risk-capital as positive. As of mid-2001, projects were able to source approximately $175 million for over 300 fast-growth SMEs through the support of a maximum government contribution of $12 million under the 22 community agreements of the CCIP. In addition, the CCIP has provided a model for independent development of similar services by communities. Many of the pilot communities will continue to operate without government assistance.

2.2.3 Reducing the Regulatory Burden

Regulatory and information burden was identified as a key concern for small business in *Growing Small Businesses* and continues to be an issue today. In a 2001 CFIB member survey, regulatory and paper burden was the second highest priority for small business after tax burden. With limited resources to ensure compliance, small businesses are particularly vulnerable to the effects of government regulations.

The challenge for government in dealing with this issue is that small business is subject to regulations by different departments and different orders of government. While discrete efforts to reduce the impact of regulations are important, from a small business perspective, it is the cumulative effect of all government regulations that matter. A recent survey illustrates this point by suggesting that red tape at the federal, provincial and municipal level impedes growth. The survey found that 75 percent of owner-managers stated government requirements were too complicated and burdensome to manage.[9]

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[9] Grant Thornton LLP, *Juggling priorities: survey results on the priorities, challenges and trends affecting owner-managers of Canadian companies today*, 2001.

Government efforts to reduce regulatory burden appear to have taken one of two broad approaches. The first approach places responsibility on individual governmental units. Since the release of *Growing Small Businesses* in 1994, the federal government has taken this approach by relying on the efforts of each department to address regulatory burden. Federal regulatory policy makes mention of the need to consider the impact of a proposed regulation on small business and federal regulators most often rely on consultations to make an assessment. This bottom-up approach has resulted in a number of initiatives that respond to needs identified during consultations with small business. For instance, the Canada Customs and Revenue Agency (CCRA, formerly Revenue Canada) now uses the Business Number to replace multiple account numbers that businesses needed to carry out transactions with government.

The second approach is more directed and one which the federal government took in a specific initiative to reduce paper burden. In 1994, the federal government formed the Joint Forum on Paper Burden Reduction to address the list of almost 100 information burden irritants identified in a CFIB survey, and in *Breaking Through Barriers*. The most burdensome irritants included: the Record of Employment; payroll remittances; income tax and GST compliance costs; federal surveys; audits and government procurement; and payment services. The Joint Forum commissioned a study to determine the impact of these irritants. The study found that businesses with fewer than 5 employees spent, on average, just over 8 percent of revenue on federal requirements while businesses with 5 to 19 employees spent, on average, 3.8 percent of revenue. The proportion of revenue spent declined further for larger SMEs (companies with 50 to 99 employees spent 1.8 percent of their revenue).[10]

By 1997, the Joint Forum had addressed 55 of the 100 identified irritants. In its final report, the Joint Forum recognized the measures put forward by departments, and challenged government to continually question its information requirements.

Independent of the approach taken, the movement towards e-government is providing opportunities for governments to reduce regulatory and information requirements. At the federal level, the Government-On-Line (GOL) initiative is resulting in interdepartmental partnerships as well as partnerships between the federal government and other levels of government to offer better services. For example, as a primary contact for small business with government, CCRA has been active in pursuing partnerships for its online services, and has launched a new web site that allows businesses in Nova Scotia and Ontario to register for key programs with more than one

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[10] Information Management & Economics Inc., *Federal Information Costs for a Panel of Small & Medium Enterprises*, December 1995.

level of government, at the same time.[11] CCRA is expanding this new Internet service to include additional provincial business programs and other provinces are considering joining in this initiative to make business registrations faster and easier.

The extent to which federal efforts have been successful in reducing regulatory and information burden for Canadian businesses cannot yet be fully measured. There are some positive indications, however. A recent study by the World Bank lists Canada as having the lowest cost of entry for start-up firms compared to 75 other countries. The OECD is currently examining Canada's regulatory regime. The report will provide policy recommendations for regulatory reform and it will likely provide an assessment on how Canada is doing compared with other member countries. The report is scheduled to be released in Spring 2002.

2.2.4 Effective and Efficient Delivery of Services

Growing Small Businesses noted that accessing the right programs and services was complex and "unfriendly" for small businesses. Furthermore, the extensive overlap and duplication in the delivery structure indicated a costly and inefficient use of public resources for serving businesses. An inventory taken in 1994 found over 700 federal and provincial support measures for small business. The Small Business Working Committee called on government to use client-oriented service improvements to redefine its role in the marketplace by substantially reducing the number of programs it operates by 1998. The government responded with two major initiatives to restructure business assistance programs, and partnerships which ease access to business support.

Restructuring Business Assistance Programs

In Budget 1994, the Government announced the comprehensive examination of some $52 billion worth of programs and activities (excluding major transfers to persons and other levels of government) to rethink not only what the federal government does but

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[11] Businesses can now register for a Business Number and CCRA programs (GST/HST, payroll deductions, export/import and corporate tax accounts). Businesses in Nova Scotia can register or apply for a business name, a Nova Scotia Workers' Compensation Board account and various licenses and permits. Ontario businesses can register or renew a business name and apply for retail sales tax, employer health tax and workplace safety accounts.

how it does it. This *Program Review*[12] was designed to identify the federal government's core roles and to re-focus resources on priority areas while reducing overall spending. *Program Review* differed from previous program evaluations in that it ensured that each department or agency used the same six basic criteria[13]. It spawned service initiatives to improve efficiency and effectiveness of programs and services, and changed the structures and institutions of government in an effort to bring decision-making closer to Canadians.[14]

The federal government's renewal agenda resulted in a permanent change in the infrastructure of business development programming and reduced or eliminated most subsidies. By 1998 the number of federal business assistance measures and service providers had been reduced to 115[15], and the delivery structure was re-organized into a network framed according to small business needs. Those business assistance programs that remained took the form of loans and repayable contributions, and fees were charged for some services. In changing how it provides support to business and other regional development assistance, the federal government substantially reduced the potential for overlap, duplication and conflict with provincial, territorial and local economic development objectives.[16]

The restructuring of program and services delivery led to the second major initiative - a re-organization of the federal government's management structure into portfolios that aligned departmental mandates with the main policy issues facing the federal government[17]. Restructuring into portfolios in 1996 was intended to enhance policy and program coherence, and place a strong emphasis on realizing synergies

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[12] *Program Review* was one of several initiatives launched under *Getting Government Right -- A Renewal Agenda.*

[13] Departments assessed their activities and programs against the following tests: serving the public interest; legitimate and necessary role of government; appropriate federal or provincial responsibility; transfer through partnership to the private/voluntary sector; efficiency; and affordability.

[14] Canada, *Getting Government Right*, op. cit. 1996.

[15] Based on a count of measures listed in *Your Guide to Government of Canada Services and Support for Small Business, 3rd edition*, 2000.

[16] To ensure that provincial governments could provide reasonably comparable public services at reasonably comparable levels of taxation, equalization payments were increased progressively over a five-year period starting April 1, 1994.

[17] Other sectoral portfolios emerging in 1996 included defence, foreign affairs and international trade and human resources development (through social security reform).

through cooperation and joint effort. The Industry Portfolio is one of the largest federal portfolios, consisting of 15 departments, agencies, Crown corporations and tribunals with some 17, 300 people, and thousands of physical and virtual points of service at local and regional locations.

The Industry Portfolio is responsible for the majority of small business assistance programs and services. Before 1996, Canada's four Regional Development Agencies (RDAs) - the Atlantic Canada Opportunities Agency (ACOA), Canada Economic Development for the Quebec Regions (CED, formerly Federal Office of Regional Development for Quebec or FORD-Q), the office for Federal Development in Northern Ontario (FedNor) and Western Economic Diversification Canada (WD), reported to different ministers. Today, each of the RDA's Secretaries of State is responsible for managing regional economic issues on behalf of the Minister of Industry.

In their new roles within the Industry Portfolio, Canada's four RDAs assumed responsibility for coordinating national policy and program initiatives at the regional level. Along with other Portfolio members, the RDAs re-oriented their mandates to focus on small business by facilitating access to capital, information and services. The RDAs work closely with provincial governments to maintain a service delivery network that links small business programs and services with community economic development initiatives.

In 1996, each RDA (and Industry Canada in southern Ontario) assumed the responsibility for the Community Futures Development Corporations (CFDCs), a network of community-based, non-profit economic development corporations originally created by Human Resources Development Canada. CFDCs are governed by volunteer boards of directors who are members of the community. The CFDC network (Community Business Development Corporations or CBDCs in Atlantic Canada and Sociétés d'aide au développement des collectivités or SADCs in Quebec) extended the reach of the Industry Portfolio's programs and services into small centres and remote regions of Canada.

"Single Window" Access to Information and Expertise

With the aim of improving access to programs and services, the federal government also announced a number of partnership initiatives in 1994.

Growing Small Businesses cited the Canada Business Service Centre (CBSC) pilot in Winnipeg as a leading example of partnership, since it linked 17 public and private sector organizations in serving business clients. Today, there are 13 CBSCs, one in every province and territory, and a national website (http://www.cbsc.org) of information databases and products. Each CBSC offers a combination of products, resources and services, tailored to meet the needs of its distinctive client base, to ensure clients get accurate and comprehensive business information. The CBSC initiative is a network of cooperative arrangements among 36 federal business departments, provincial governments, associations, and academic and research communities, that delivers information products and referral services in person, by telephone, fax, e-mail, and on the internet. The participants and federal managing partners who are responsible for the development and management of the CBSCs vary from province to province:

- Western Economic Diversification Canada (WD) manages the centres in British Columbia, Alberta, Saskatchewan and Manitoba.
- Industry Canada (IC) manages the centres in Ontario, Nunavut, the Yukon and the Northwest Territories.
- Canada Economic Development for Quebec Regions (CED) manages the centre in Quebec.
- The Atlantic Canada Opportunities Agency manages the centres in Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland.

The CBSC network not only provides "single window" access, but it is a model for intergovernmental consultation and seamless service delivery benefiting the small business client. For example, the Canada/British Columbia Business Service Centre (http://www.smallbusinessbc.ca) is located in Vancouver, but is directly connected to 90 points of access in both urban and rural areas. Each of these points are available to Western small businesses, bringing services, government programs and timely business information to local communities. Federally, access points in western Canada are staffed by the Department of Western Economic Diversification Canada, Community Futures Development Corporations, Women's Enterprise Initiative, and Canada Business Service Centres. Provincially, these same points are staffed by B.C.'s Ministry of Competition, Science and Enterprise.

In many access points, co-location of federal, provincial and municipal government staff results in cost savings and increased efficiency in providing information service to the small business client. Each CBSC develops service standards to ensure that entrepreneurs and small businesses remain satisfied with the information provided. Many support Client Services Advisory Committees, consisting of representatives of local small business associations, Chambers of Commerce, and Boards of Trade, which meet to review and provide advice on the CBSC's activities and service offerings to ensure that our services continue to meet the needs of the local small business sector.

The second partnership initiative, the Community Access Program (CAP), was launched in February 1995 to provide for electronic delivery of government services, and as a means of raising awareness in communities about the potential of the Internet. Today, CAP combines the efforts of the federal, provincial and territorial governments, community groups, social agencies, libraries, schools, volunteer groups and the business community, to provide Canadians with affordable public access to the Internet and the skills they need to use it effectively (http://cap.ic.gc.ca).

Furthermore, since March 1996, small businesses have been able to access directly Industry Canada's extensive expertise and information sources through *Strategis: Canada's Business and Consumer Site* (http://strategis.ic.gc.ca). The business information products on *Strategis* help small businesses identify new markets, explore opportunities for growth, find partners, form alliances, discover and develop new technologies or processes, and assess the risks of new ventures. Since its launch, *Strategis* has grown and evolved as the Internet develops.

Over 30,000 *Strategis* users subscribe to this service. *Strategis* makes use of new technologies to offer interactive applications such as customizable benchmarking tools, cost calculators, and online business planning. Many of Industry Canada's services, such as filing an application for patent, can now be completed online through *Strategis*. Since its launch, there have been over 24 million visits to *Strategis*, on average, over 30,000 visits each business day. *Strategis* contains more than 20,000 links to related business sites, and some 6,700 Internet sites outside Industry Canada feature a link to *Strategis*.

Popular business sites on *Strategis* include *Contact! The Management Network* that provides information on business start-up, *Sources of Financing* and *Performance Plus*, an on-line benchmarking tool that provides detailed financial and employment data. Another excellent source of business information is *Your Guide to Government of Canada Services and Support for Small Business.* This comprehensive guide provides an overview of federal programs and services and is updated regularly in both print and electronic versions.

Strategis also provides a link to the federal government's Internet strategy - *Government On-Line (GOL)*. The Businessgateway, launched in January 2001, is the GOL portal that brings together relevant information for Canadian business on subjects identified as priorities by business stakeholders, including start-ups, financing, taxation, regulations and human resources. The content and functionality of the Businessgateway will continue to evolve to include provincial, municipal and private sector information and services.

Finally, technological advances and inter-departmental co-operation have advanced the efficiency gains for the government in the delivery of services to small business, regardless of the information or expertise they require. For example, CCRA and Statistics Canada created a single integrated business database through the use of the single Business Number. This initiative reduced the cost to business and taxpayers of completing duplicate survey documents, and provide common clients with a "single window" service with federal departments. Small businesses can register with CCRA on-line through the CBSC network.

Targeting Government Resources to Enhance Competitiveness and Encourage Growth

2.2.5 Provision of Strategic Information and Expertise

Government resources have not only been channeled towards improving the structure and delivery of programs, products and services supporting small businesses. The federal government's business support network includes more strategic initiatives such as providing accurate, timely, and accessible information relating to Canadian small businesses. *Growing Small Businesses* emphasized that the most useful information focused on economic performance, market trends, emerging opportunities, new technologies, and business best practices. The Small Business Working Committee reminded government that strategic information and expertise is an essential competitive requirement, and the government was a major generator and user of information on relevant global issues such as trade and technology.

In response to the changes in the global business environment since 1994, Industry Canada has channeled more resources to strengthening its policy development activities relating to the challenges of growth and global competitiveness facing Canada's small businesses. Working with its federal and provincial partners, as well as with academics and consultants from the private sector, Industry Canada gathers, analyzes, packages and disseminates information to foster the sustained development and growth of small businesses.

2.2.6 Reviewing and Re-engineering Small Business Support Policies

Growing small businesses called for a critical review and re-engineering of small business support policies in the areas of management, labour skills development, trade and marketing, technology and capital for growth. A significant body of knowledge has been developed on those areas since 1994, and has been used to modify and enhance existing policies, and develop new ones. The extent to which gaps and weaknesses have been addressed, and the challenges facing small business met, are discussed in more detail in section 4.0 – *Factors Affecting Growth.*

3.0 PERFORMANCE ANALYSIS

Understanding performance in the small business sector is critical in determining whether the small business policy framework adequately supports and promotes growth. There are many ways to measure performance. How profitable are small businesses? How competitive are they? How sound is their financial structure? How does their productivity compare with that of larger firms or small firms in other countries? What is their share of value-added to the economy? Through these and other measures the performance of small businesses could be assessed. Unfortunately, the information is available for only some of the measures.

This section looks at two of these measures: job creation and profitability, and concludes with a brief discussion of a third measure, contribution to GDP.

3.1 Job Creation

Overall, small firms have played an important role in net job creation. Data over the last seven years show that small businesses have been a major contributor to job creation in some years, while in others the contribution has been more modest. Self-employment has positively contributed to total employment change in all but two of the last 24 years. The following presents analysis of the two components comprising total employment – payroll employment and self-employment.

Payroll Employment

Over the last seven years, data have become available on what size of firms create net jobs in the economy. The data are derived from Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH). The SEPH data exclude job creation through self-employment, unless the person is on the payroll of his/her enterprise, as well as the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data shown in Table 1 also exclude public sector employment (public administration, postal services, public transit, educational services and institutional and other government-funded health care services), but they include employment in private sector professional health practices and in beer and liquor stores. The data are grouped for "small" (fewer than 50 employees) "medium" (50-299) and "large" enterprises (300+).

Table 1: Percent Contribution to Net Private Sector Paid Employment Change by Size of Business Enterprise, 1994~2000, annual averages

Year	% Contribution to Private Sector Employment Change		
	Small Enterprises (Up to 49 Employees)	Medium Enterprises (50 to 299 Employees)	Large Enterprises (300 Employees or more)
1994	116%	22%	-38%
1995	59%	49%	-8%
1996	-8%	94%	14%
1997	1%	67%	32%
1998	23%	24%	53%
1999	12%	33%	55%
2000	16%	22%	61%

Source: Statistics Canada, Survey of Employment, Payrolls and Hours (SEPH); special tabulation for Industry Canada; and calculations by Industry Canada. The underlying data are regularly published in Industry Canada's *Small Business Quarterly*.[18]

Table 1 and Figure 2 display the relative contribution to job creation by these three size classes of businesses over the years 1994 to 2000. The relative contribution by each size class has varied considerably, but each has played a major role in creating jobs in Canada at a certain time period. In 1994 and 1995, for example, businesses with more than 300 employees were shedding jobs and most of the job creation was to be found in enterprises with fewer than 50 employees. In 1996 and 1997, medium-sized enterprises took over the lion's share of net job creation. In the last three years (1998 to 2000), small businesses have created less than a quarter of net new jobs while large enterprises have been responsible for more than half of the total.

A significant limitation of these data is that they cover a generally expansionary period, with only a mild downturn in 1995-1996. In a more severe downturn or a recession, the percentage contributions by smaller business to job creation (or loss) may be quite different.

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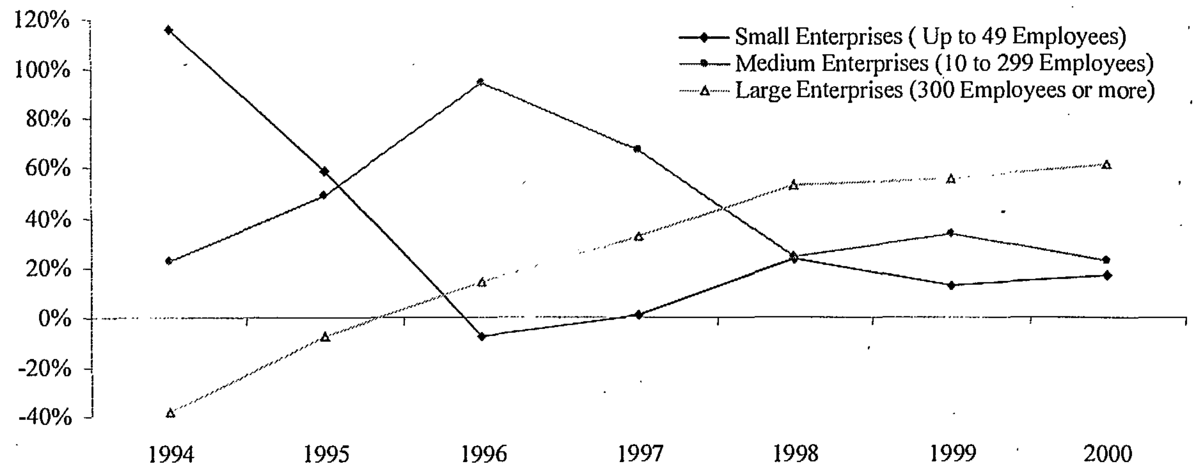
[18] SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data underlying this table exclude employment in public administration, postal services, public transit, educational services and institutional and other government-funded health care services, but include employment in private sector health practices and beer and liquor stores.

Figure 2: Percent Contribution to Net Private Sector Paid Employment Change by Size of Business Enterprise, 1994~2000



Source: Table 1

Self-employment

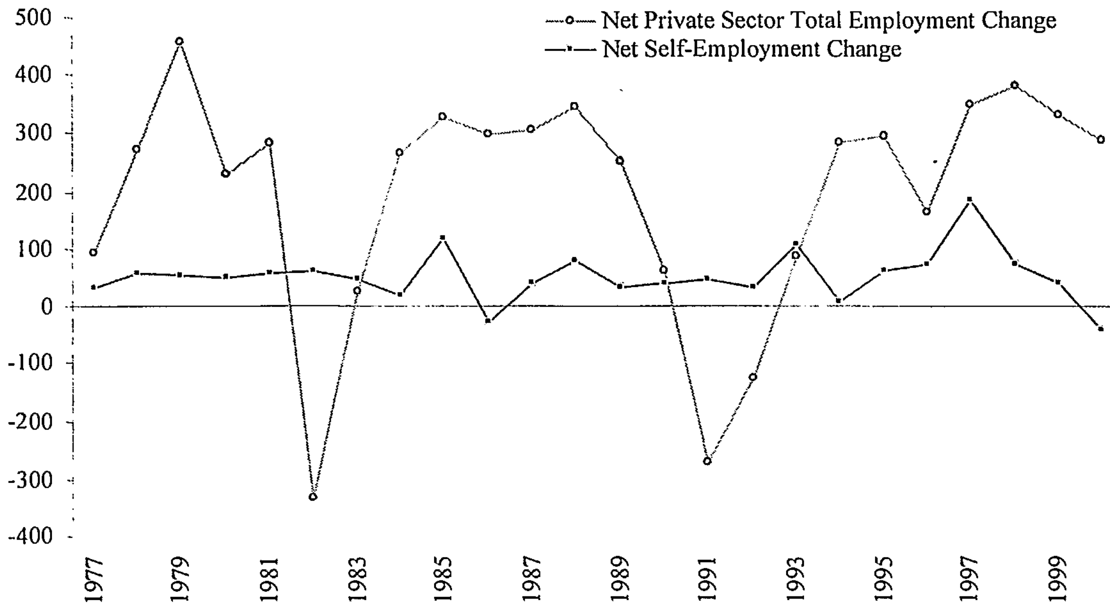
The increasing trend toward self-employment has generally supported total employment growth. Positive contributions to total net employment growth have ranged from 6 percent to 111 percent since 1977 (Table 2), and over that period there have been just two years (1986 and 2000) where the net change in self-employment was negative. In 1982 and 1991-92, self-employment grew strongly while total employment growth turned negative due to economic recessions. When job market conditions tighten, more people who cannot find suitable employment tend to start their own business and become self-employed.

Figure 3 and Table 2 also show data for the private sector only. Private sector employment is defined here as the sum of self-employment and private sector employees of all sizes of firms[19]. Again it is clear that the self-employed's contribution to total private sector employment is strong during and around recessionary years and has varied substantially in other years.

Statistics Canada's *Labour Force Survey* distinguishes five categories of self-employed workers: those who work with paid help and those without paid help, and, in

[19] The definition of private sector employees in the Labour Force Survey utilized in Table 5 is not identical to that underlying the SEPH data but the differences are not large.

Figure 3: Net Employment Change for Private Sector Employees and in Self-Employment, year-to-year, in thousands, 1977~2000



each, whether their business is incorporated or unincorporated; unpaid family workers make up

Source: Table 2

the fifth category. Between 1995 and 2000, most of the increase in self-employment consisted of self-employed persons working without employees. Incorporated and unincorporated combined, these types of workers expanded by 27 percent over that period. Unpaid family workers declined by 25 percent while self-employed workers with paid help increased their ranks by only one percent during the same period. Total self-employment increased by 15 percent over the five years.

Table 2: Total Net Employment Change, Net Employment Change for Private Sector Employees and Net Change in Self-Employment, 1977~2000, year-to-year, in thousands

Year	Total Net Employment Change	Private Sector Total Net Employment Change	Private Sector Employees			Self-Employed Persons		
			Net Change	% of Total Employment Change	% of Total Private Sector Employment Change	Net Change	% of Total Employment Change	% of Total Private Sector Employment Change
1977	138.5	94.0	61.1	44%	65%	32.9	24%	35%
1978	297.5	274.7	217.3	73%	79%	57.4	19%	21%
1979	445.5	457.9	405.3	91%	89%	52.6	12%	11%
1980	312.4	229.7	180.0	58%	78%	49.7	16%	22%
1981	326.7	284.4	227.8	70%	80%	56.6	17%	20%
1982	-349.8	-331.3	-392.5	(-)112%	(-)118%	61.2	(+) 17%	(+) 18%
1983	80.0	24.2	-23.4	(-) 29%	(-) 97%	47.6	60%	197%
1984	273.0	265.9	248.2	91%	93%	17.7	6%	7%
1985	317.3	327.5	211.4	67%	65%	116.1	37%	35%
1986	361.7	297.5	326.6	90%	110%	-29.1	(-) 8%	(-) 10%
1987	341.7	303.9	264.3	77%	87%	39.6	12%	13%
1988	389.6	345.8	269.2	69%	78%	76.6	20%	22%
1989	276.1	252.5	221.3	80%	88%	31.2	11%	12%
1990	97.6	59.1	19.8	20%	34%	39.3	40%	66%
1991	-233.3	-270.8	-315.5	(-)135%	(-)117%	44.7	(+) 19%	(+) 17%
1992	-90.7	-125.8	-157.7	(-)174%	(-)125%	31.9	(+) 35%	(+) 25%
1993	97.5	84.9	-22.9	(-) 23%	(-) 27%	107.8	111%	127%
1994	254.2	282.9	273.7	108%	97%	9.2	4%	3%
1995	245.2	294.9	233.4	95%	79%	61.5	25%	21%
1996	105.7	163.9	92.3	87%	56%	71.6	68%	44%
1997	311.8	347.0	162.7	52%	47%	184.3	59%	53%
1998	366.0	378.8	307.3	84%	81%	71.5	20%	19%
1999	390.8	330.9	293.2	75%	89%	37.7	10%	11%
2000	378.5	287.7	329.2	87%	114%	-41.5	(-) 11%	(-) 14%

Source: Statistics Canada, Labour Force Survey (LFS). The LFS definition of "private sector" generally agrees with the definition underlying the SEPH data but the two are not identical.

Note: (-) indicates a negative contribution to Total Employment Change.
(+) indicates a positive contribution, despite a negative Total Net Change.

3.2 *Profitability*

Data for 1993, 1995 and 1997 on incorporated small firms (with average revenues well under $2 million and fewer than 20 employees on average) strongly suggest that, within this range, larger firms are more profitable. As well, over time, profitability increased significantly for all but the smallest firms.

A comparison of profitability of small businesses with businesses in size ranges beyond $5 million in annual revenue indicates mild support for the conclusion that increases in profitability continue as firm size increases.

Comparable data for unincorporated small firms paint a different picture. (These firms have average revenues below $300,000 and on average employ fewer than 2 people.) Among this type of small firm, the data suggest that being larger means being less profitable. Here too, profit margins have increased over time, though not as steeply as among incorporated firms.

Net income is the only line item appearing on all financial statements of every firm, small or large, enabling a universally recognizable basis for comparison. Profitability is the fundamental indicator of a firm's capacity to grow because it measures the market's acceptance of the firm's products and services, and of the firm's ability to manage the costs of delivering those products and services to market. Moreover, information on the firm's profitability, as shown in financial statements, is used by investors, creditors, and other interested parties to measure the economic performance of the enterprise.

According to Statistics Canada's *Small Business Profiles*, about 71 percent of all businesses (incorporated and unincorporated combined) with between $30 thousand and $5 million in revenues for tax year 1997 made a profit; the same percentage was profitable in 1995, and this was slightly up from the 69 percent achieved in 1993. The data for incorporated and unincorporated firms capture very different types of small firms, however, so they are looked at separately in the remainder of this section.

Measuring Profitability

Investors, creditors and other users assess the profitability of businesses by using financial ratios. Measured as percentages, financial ratios allow firms' performances to be compared over time and across industries. However, caution must be exercised when making such comparisons because different industries have different input intensities (capital and labour) which influences some of the financial ratios.

Financial data for small businesses are published every two years in Statistics Canada's *Small Business Profiles*. They are sampled from tax records for businesses with annual revenues of between $30,000[20] and $5 million. The data are available at each of the four levels of Standard Industrial Classification (SIC) and for incorporated businesses, unincorporated businesses, and the two combined. The data for unincorporated firms are derived from a sample of T1 tax records, while T2 tax records were sampled for the data on

[20] Prior to 1997, *Small Business Profiles* used $25,000 as the revenue minimum.

incorporated firms. Unincorporated firms are not required to report balance sheet information on their tax declaration; the number of financial ratios that can be calculated for unincorporated firms, and for the sum of incorporated and unincorporated firms, is therefore limited.

Table 3 data presents financial ratios by revenue quartile, identified by a revenue range and mean. For incorporated firms, financial ratios include Gross Margin, Profit Margin, Operating Profit/Equity, and the average number of employees. For unincorporated firms, the Gross Margin, Profit Margin, and average number of employees are reported. The ratios[21] are defined as follows:

Gross Margin = (Gross Operating Revenue - Cost of Goods Sold - Wages, Salaries, and Benefits) x 100 / Gross Operating Revenue

Profit Margin = (Gross Operating Revenue - Total Expenses before income taxes) x 100 / Gross Operating Revenue

Operating Profit / Equity = (Gross Operating Revenue - Total Expenses before income taxes) x 100 / Total Equity

Average Number of Employees = (Salaries + Wages + Benefits) / Average Annual Earnings per Employee

Incorporated Firms, All Industries

Looking first at the summary data for incorporated firms in all industries combined (Table 3), the Gross Margin would indicate that smaller firms are more profitable, but the Profit Margin suggests, if anything, the reverse. The reason for the difference between the two ratios is that the Gross Margin is only net of cost of goods sold and labour costs, which are the most significant expenses for very small firms. However, as firms increase in size, they tend to become less labour intensive so that the relative size of labour costs falls while the cost of equipment, rent, financing, and advertising increases. The Profit Margin therefore provides a more complete indication of firm profitability. A third measure, Operating Profit/Equity, relates the amount of income earned to the level of investment used to generate the income. This measure nearly uniformly finds that larger firms, in the

[21] These financial ratios are not directly comparable between incorporated firms and unincorporated firms because, unless the owner is on payroll, the numerator of each ratio includes his or her salary and withdrawals. More precisely, for unincorporated firms, "profit" is gross of the owner's remuneration. While this may also be true for incorporated firms, it is reasonable to assume that more owners of incorporated firms are on their own payroll, in which case "profit" is net of that remuneration.

range sampled here, are more profitable than smaller ones. The exception is in 1997, when the Operating Profit/Equity ratio of the highest quartile was slightly below that of the next-highest quartile.

Over time, these ratios experienced some fluctuation. The Gross Margin and Profit Margin display increasing trends between 1993 and 1995, but were lower again in 1997. The Operating Revenue / Equity ratio increased over the 1993 to 1997 time period in the top three revenue quartiles. However, in the lowest revenue quartile, the Operating Profit / Equity ratio increased from 1993 to 1995, but fell in the 1995 to 1997 period. This may be due in part to the sample redefinition of the minimum revenue threshold adopted in 1997.

To provide a context for the small business profitability ratios, comparable figures were obtained from Statistics Canada's *Financial and Taxation Statistics for Enterprises*. This publication uses a combination of T2 tax records and a survey of financial statements to represent incorporated businesses, government business enterprises, credit unions, and unincorporated firms in joint ventures with incorporated firms. The data are gathered annually and represent all business sizes in three groups: "small" firms with annual revenue below $5 million, "medium-sized" businesses with revenues between $5 million and $75 million, and large firms with revenues in excess of $75 million. All industries are covered, but the data presented here exclude investment and holding companies.

Table 3: Small Business Profitability in 1993, 1995, and 1997, and Comparable Data for All Firms

INCORPORATED SMALL FIRMS

Total: All Industries

	# of Firms in Sample	Revenue Quartiles 1/4	2/4	3/4	4/4
1993	46,850	$25 to $85	$85 to $194	$194 to $474	$474 to $5,000
Avg. Revenue (Thousands)		$52.4	$132.4	$308.8	$1,168.6
Gross Margin (%)		58.0	52.2	45.3	33.6
Profit Margin (%)		2.1	4.6	4.1	3.4
Op. Profit / Equity (%)		1.5	6.3	9.8	10.7
Avg. # Emp.		0.6	1.7	3.9	11.8
1995	44,240	$25 to $81	$81 to $192	$192 to $471	$471 to $5,000
Avg. Revenue (Thousands)		$51.4	$132.6	$304.0	$1,158.4
Gross Margin (%)		62.1	52.3	47.7	35.7
Profit Margin (%)		3.5	6.0	6.3	5.2
Op. Profit / Equity (%)		2.8	7.7	12.6	15.2
Avg. # Emp.		0.4	1.4	3.4	10.1
1997	39,520	$30 to $98	$98 to $225	$225 to $591	$591 to $5,000
Avg. Revenue (Thousands)		$62.8	$153.2	$372.8	$1,547.7
Gross Margin (%)		55.9	50.9	42.1	29.1
Profit Margin (%)		-1.3	4.4	4.6	2.8
Op. Profit / Equity (%)		-2.3	10.5	17.2	16.5
Avg. # Emp.		0.7	1.8	4.4	14.4

Comparison Data, All Industries

Year	SB Profiles Incorp. Small Firms P.M.	P/E	Financial and Taxation Statistics Small Firms P.M.	Med. Firms P.M.	Large Firms P.M.	Total P.M.	Total P/E
1988						7.9	17.1
1989						7.4	14.4
1990						6.4	8.9
1991						5.4	5.1
1992						4.8	2.8
1993	3.6	8.9	3.0	4.2	7.2	5.6	6.3
1994			3.7	5.0	8.9	7.1	11.2
1995	5.4	12.5				7.9	13.3
1996						7.6	12.7
1997	3.1	14.5	3.7	4.7	9.7	8.0	14.0
1998			4.9	4.4	8.6	7.5	12.7

UNINCORPORATED SMALL FIRMS

Total: All Industries

	# of Firms in Sample	Revenue Quartiles 1/4	2/4	3/4	4/4
1993	135,190	$25 to $37	$37 to $61	$61 to $117	$117 to $5,000
Avg. Revenue (Thousands)		$30.5	$47.7	$83.6	$285.6
Gross Margin (%)		82.2	76.6	67.3	38.0
Profit Margin (%)		30.5	27.0	20.3	8.3
Avg. # Emp.		0.1	0.2	0.5	1.9
1995	148,460	$25 to $36	$36 to $59	$59 to $111	$111 to $5,000
Avg. Revenue (Thousands)		$29.8	$45.9	$80.0	$269.9
Gross Margin (%)		84.4	78.7	69.6	40.8
Profit Margin (%)		33.2	29.4	22.5	9.3
Avg. # Emp.		0.1	0.2	0.4	1.5
1997	134,900	$30 to $45	$45 to $74	$74 to $127	$127 to $5,000
Avg. Revenue (Thousands)		$36.7	$58.2	$94.9	$294.6
Gross Margin (%)		74.7	66.3	60.2	35.1
Profit Margin (%)		34.9	29.4	24.7	10.7
Avg. # Emp.		0.1	0.2	0.5	1.8

Source: Statistics Canada, Small Business Profiles 1993, 1995 &1997 and Finanacial and Taxation Statistics, 61-008.

The second panel of Table 3 compares data for all incorporated firms in the *Small Business Profiles* sample with those in *Financial and Taxation Statistics*. The Profit Margins for small businesses using data from *Profiles* agree fairly well with those for small firms in *Financial and Taxation Statistics*; differences could be due to sample differences. Profit Margins for medium and large firms show a uniform trend of increasing profitability with increasing firm size.

Operating Profit / Equity ratios by size of firm are not available from *Financial and Taxation Statistics*. But a comparison between all incorporated firms in the *Small Business Profiles* and all firms reported in *Financial and Taxation Statistics* is displayed in the panel. The comparison yields no firm conclusions: in 1993, the ratio indicates that small businesses were more profitable than the average of all firms. The reverse is true for 1995, when the ratio for small businesses was marginally below the one for all businesses; in 1997, small businesses came out slightly ahead of the average for all firms.

Unincorporated Firms, All Industries

Profit ratios for unincorporated firms offer a different picture. Only the Gross and Profit Margins are available and, when calculated for all industries, the two ratios agree with each other. This differs from the behaviour of these ratios for incorporated firms because the unincorporated firms are very small, with an average number of employees of less than 2 in the largest revenue quartile. Since these firms are all so small, there is very little difference in cost structure between the "large" and "small" businesses in this sample. Both the Profit Margin and the Gross Margin indicate that, the smaller a firm is, the more profitable it is likely to be. (Recall that these margins are before off-payroll remuneration of owners.)

Over time, the Gross Margin increased between 1993 to 1995, but was lower again in 1997. The Profit Margin increased over the entire period, suggesting that the profitability of unincorporated small businesses has improved.

Profitability in four Industries with many Small Businesses

Annex B provides comparable data for four industries that comprise large numbers of small businesses, namely Manufacturing, Business Services, Wholesale Trade and Retail Trade. For the most part, the trends observed for all industries hold at the industry level for both incorporated and unincorporated firms. Incorporated firms in the lowest revenue quartile were generally unprofitable; profitability generally increased with size; and in most instances profitability has increased over time. Among unincorporated firms, again in most instances, larger size means lower profitability; and the tendency for profitability to increase over time is less pronounced.

3.3 Contribution to Gross Domestic Product (GDP)

GDP is the most commonly used measure of national value-added, and an important indicator of economic performance. Clearly it would be beneficial to have statistical information on the contribution of small business to the overall economic performance of the nation, and on the evolution of that contribution over time.

The Organization for Economic Cooperation and Development (OECD) has published estimates of small business contribution to GDP in member countries, which in turn have been widely quoted in analyses of the performance of small business. In Canada, the Government of British Columbia (BC Stats) has developed a model to determine provincial GDP contribution from small business. However, both these estimates are derived top-down, and are very tentative.

Underlying the national estimates of GDP published by Statistics Canada are a multitude of statistical programs, which together form the System of National Accounts. Industry Canada has commenced discussions with Statistics Canada about the feasibility of finding statistically acceptable methods for estimating a breakdown of GDP by size of business.

4.0 FACTORS CONTRIBUTING TO GROWTH

As mentioned earlier in this document, the current federal small business policy framework is predicated on the view that small businesses can make significant contributions to growth and economic prosperity. Growth is defined by net changes to employment and improved financial performance.

There are, of course, thousands of business owners who derive adequate or better financial returns and personal satisfaction from their "non-growing" businesses, and have neither intention nor ambition to "grow" their enterprise. In fact, the majority of firms are what has been termed "foundation firms", where continuous, regular income is the primary objective. According to one study, "The entrepreneur's desire for stability and security may be one of the most important considerations in choosing the direction for growth. Also, stability is one goal which has the active support of people related to the organization, like employees and family members."[22]

Nonetheless, the importance of growth firms should not be understated. Research increasingly supports the view that growth firms are critical to Canada's economic future. For example, a recent study of leading growth firms in Ontario over the period 1986 to 1998 concluded that these firms consistently out-performed firms that did not adopt a rapid growth strategy. It was found that hyper-growth firms, those that grew their payroll by 100 percent or more during the initial 3-year period, while representing only 1.6 percent of firms in Ontario in 1989, accounted for a third of all new jobs in the province during the 12 year period of the study.[23] Furthermore, they had a lower failure rate, and the best of them made a contribution to economic growth out of all proportion to their numbers. During the 1991 recession, they retrenched slightly more severely than their non-expansionary counterparts, but then they rebounded more strongly once the downturn was over.

Given their superior performance in contributing to economic growth, developing policies and programs that will help increase the number of high growth firms is of interest to all orders of government. To do this, a better understanding of the factors that contribute to small business growth is necessary. The following provides an analysis of the factors which small business researchers have concluded are the most important in determining growth.

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[22] Gasse, Y., *Research Project on Best Business Management Practices*, 1996.

[23] Rumball, D., *Leading Growth Firm Series*, Publication No. 6, Ontario METD, 2001

Growth Factors

According to research on growth firms, there are three means by which employment and the attendant economic prosperity can be fostered. First of all, new businesses may be created – indeed a high proportion of job creation is attributable to the birth of new firms. Second, existing firms may grow and create jobs. The third way to advance employment is to reduce the rate of exits among small firms, thereby increasing net job creation[24]. These three avenues to job growth imply different public policy approaches and target groups. Leaving the analysis and implications of stimulating entry and attenuating exit to another day, the remainder of this section will focus on growth in existing firms.

In the 1994 study *Strategies for Success – A Profile of Growing Small and Medium-sized Enterprises in Canada*[25], John Baldwin identified a number of functional and developmental strategies common to successful growing small firms. These include:

- **Management skills** – growing small businesses stress advanced management practices above all other strategies.

- **Human Resources** – the quality of the labour force is a priority for growth firms and is ranked second to management skills in explaining growth.

- **Innovation** – growth firms are innovative in a broad sense, stressing technology over R&D capability. They adopt an aggressive strategy involving new products and technologies.

- **Marketing** - growth firms recognize the importance of marketing, and in particular, have an export-orientation.

- **Financing** – growth firms utilize relatively more long-term capital than short-term capital. They use more equity than debt and also have substantial retained earnings.

According to Baldwin, the relative importance of these strategies changes over the course of a firm's growth: At the earlier stages, management capabilities are typically crucial to survival. As the firm ages, human resource and innovation strategies increase in importance. By the time the firm has become more established, its management and human resource capabilities are typically quite developed, and growth is more closely associated with continuing innovation.

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[24]Orser, B., Gasse, Y., Riding, A., *Factors Relating to SME Growth: A Review of Research Findings,* Canadian Council for Small Business & Entrepreneurship, 1996.

[25]Baldwin, J. *Strategies for Success – A Profile of Growing Small and Medium-sized Enterprises in Canada,* Statistics Canada, Catalogue 61-523E, 1994.

What follows is a brief review of the five factors contributing to growth identified in the Baldwin study.

4.1 Management Skills

Research suggests that management skills are the key to growth of small firms, however there are a number of barriers to entrepreneurs acquiring better management skills. Firstly, there must be a recognition that a gap exists. Secondly, the entrepreneur must be able to identify the specific areas in which gaps exist. Lastly, the entrepreneur requires information on how to fill these gaps. Key to addressing these barriers is the availability of information and diagnostic tools to allow entrepreneurs to assess their needs and locate appropriate resources to address their needs.

The business environment has become more global, complex and competitive. As a result, small businesses must learn and deploy a wider range of business management skills in order to prosper and grow. Research suggests that successful firms practice good management in all functional areas: planning, marketing and evaluation, and management of people, capital and budgets.[26] A review of literature on management produces a list of the following competencies required to be a good manager:

1. Vision: leadership, communication, entrepreneurial values and creating a climate conducive to high performance.

2. People management: the ability to hire, train, manage and evaluate employees, as well as interpersonal 'soft skills' such as motivation and persuasion.

3. Strategizing and planning: business planning skills, and the ability to develop strategic alliances within the new knowledge-based economy.

4. Operational competency: the ability to adapt new information and communication technologies, innovation, and quality standards, and manage risk through all business stages of growth.

5. Marketing and sales: the ability to develop marketing plans, to identify networking opportunities, and to identify new markets and products.

In *Strategies for Success*, Baldwin determined that growing SMEs stressed

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[26] *Report of the Expert Panel on Skills* presented to the Advisory Council on Science and Technology, 1999.

management skills as the key factor contributing to their growth, ahead of marketing ability, skilled labour, access to markets, access to capital, ability to adopt technology and R&D innovation capability. The Baldwin findings were referenced in *Growing Small Businesses* and have been widely cited and confirmed in subsequent studies that examine the importance of management skills to a firm's growth. According to the *Research Project on Best Management Practices*, the main cause of bankruptcy and business failure among new Canadian firms is the lack of management training and experience of their leaders.[27] In 2000, the Canadian Alliance of Manufacturers and Exporters conducted a survey on the management issues faced by its members, the majority of which are small businesses. Management skills were ranked first on a list of skill needs, before skills in information technology and engineering. Given that management skills are so crucial to a firm's survival and growth, better understanding of the factors impeding and those conducive to management skills development in a small business is critical.

A 1995 Industry Canada study outlined several possible issues faced by small businesses in acquiring, maintaining, and applying business skills. The study determined that entrepreneurs lack the time, money, information and knowledge base required to assess their training needs and select appropriate training and development programs and services. Furthermore, it concluded that information on the key players in the commercial education and training services industry is often incomplete, and that the lack of a simple and inexpensive source of information on available training programs in Canada impedes businesses from taking advantage of affordable training opportunities.[28] The study determined however, that there is no shortage of suppliers, intermediaries, networks and information sources.

A follow-up study[29] on management skills commissioned by Industry Canada in 2000 noted that inexperience and imperfect information may lead to misdiagnosis of problems and needs, and that imperfect information is a principal barrier at all stages of the development cycle of the firm. Easily accessible and affordable tools for helping entrepreneurs diagnose and benchmark their management practices are not currently available. The development of such tools is hampered by the fact that, while key management skills have been identified, there is a lack of research on how they may best be measured. While the financial health of a firm is readily benchmarked, there appears to be little in the way of benchmarking the management skills of an owner/manager.

Another important information gap that small firm managers must address is the link

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[27] Gasse, op.cit., 1996

[28] Newton, K., *Management Skills Development in Canada*, Occasional Paper No. 13, Industry Canada, 1995.

[29] Newton, K., *Management Skills for Small Businesses,* 2001.

between the development and deployment of management skills, and the impact on firm performance. Again, there is a lack of research in this area, and until there is more empirical evidence to demonstrate the return on investment in acquiring management skills, the natural reluctance for small business managers to pay for costly services and/or advice with uncertain results will continue to prevail. Many small business owners and managers feel intuitively that skill acquisition makes sense but hesitate because of the direct costs and the opportunity cost of their time. Ideally they should be convinced that skill acquisition is not just a cost but an investment that has bottom-line payoffs.

Alliances and partnerships between firms are an essential means to help overcome information and knowledge gaps. There are a number of strategies and practices available to help small firms build alliances and partnerships, including mentoring, incubators and business network and cluster strategies. Too often, however, small firms lack the information, experience and skills to forge such linkages and benefit from them.[30] In some cases it may also be the conscious decision of owner-managers to forge ahead on their own in order to maintain greater management control.

Studies have suggested the need for a facilitation or 'brokerage' function, with a strategic focus on awareness and communication. Strategic information must also be further developed and enriched, perhaps through some form of a business-government-education alliance or partnership. Such an approach could help address the findings of a small business information needs assessment survey comprising more than 1000 interviews with small businesses conducted for Industry Canada in 2000. The survey found that small business placed government second to the bottom in a list of ten sources, well below clients, suppliers, business managers, banks and others in importance of potential sources of business information. The survey also found that government is viewed as a source of information with little or no importance to more than half of the small businesses surveyed.

4.2 Human Resources

Evidence suggests that small firms invest less in formal human resource development as compared to large firms, even though this investment has positive impacts on both the performance of firms and workplace satisfaction. Barriers to formal investment include limited resources – both time and money – and a lower return on investment related to lack of economies of scale. Small firms tend to rely on informal approaches to improve the quality of their labour force and the depth of their knowledge base. Returns on these informal investments are difficult to measure because concrete objectives are rarely established, and increases in the knowledge base, an intangible asset, often lag the investment.

[30] Ibid.

To a large extent, the growth and success of Canada's small businesses depends on the entrepreneur's goals, skills and knowledge and his/her ability to imbue these attributes in the core functions of the enterprise. In order for a small business to compete effectively and grow in the global economy, the entrepreneur must first assess his/her own skills and abilities, then decide how to develop the critical skills needed to ensure that the business succeeds, or how to acquire those skills that he/she does not possess through training of staff and hiring new employees.

Training

In 1997, Canadian Policy Research Networks (CPRN) conducted a survey on workplace training which investigated incidence and nature of training in firms, and the factors leading to the training decision.[31] One of the key conclusions of this study was that informal training in one form or another occurs in essentially all firms. However, formal training is more strongly signaled in the labour market, and is easier to measure. Whether formal or informal, the CPRN study concluded that workplace training has positive impacts on both the performance of firms and employment outcomes for employees. The Canadian Federation of Independent Business (CFIB), suggested in a 1999 study[32] that informal approaches are as effective as more formalized approaches in contributing to a positive work experience, job quality and productivity.

Small firms face particular barriers in providing or acquiring training. They face higher training investment costs than large firms, whether they acquire formal, classroom-based programs, or spend time providing instruction and guidance on-the-job. The CPRN study noted that training expenditures per employee (or per trainee) are twice as high in establishments with fewer employees as in establishments employing 100 people or more. Whether formal or informal, small firms face relatively higher fixed costs associated with the provision of training or skills development, and greater disruption associated with having key employees absent during training, or engaged in activities that do not contribute directly to bottom-line performance.

CPRN noted that the disruption of training to firm operation is particularly acute in micro-enterprises, and the self-employed. Further, for the self-employed or workers in small firms where training is not provided, CPRN's survey found that many individuals lack the private savings needed to finance their own training even though there is evidence that an individual's investment in training is recouped in higher wages and increased workplace satisfaction.

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[31] Betcherman, Leckie, McMullen, *Developing Skills in the Canadian Workplace,* CPRN Study No. W[02], 1997.

[32] Pohlmann, C., *Employer-Employee Relations Within SMEs,* CFIB, November 11-13, 1999.

Evidence uncovered in the CPRN study suggested that small firms are less likely to know about relevant training opportunities, or to work with firms in the educational sector to provide training. Both of these activities require the investment of time in skills development activities, which is relatively more costly for small firms compared to large firms. To overcome these barriers, CPRN suggested that small firms need to pool the costs and the risks associated with training and improve their access to information.

The investment in training or skills development, formal or informal, is relatively more risky for small firms than large firms. It is more difficult for them to justify an investment in training when there is no guarantee that this will capture immediate or longer term returns. Moreover, when demand for trained employees outweighs supply, the loss of a skilled employee to another firm may represent a significant part of the resource base available to the small firm. In these circumstances, smaller firms may consciously focus on recruitment rather than skills development.

On-the-job training, relatively more common in small firms, is very difficult to track because training objectives are rarely established. The absence of measurement criteria limits the effectiveness of a causal analysis. Better understanding the links between training and firm performance is critical to encourage further investment in training by small firms.

In September 2001, Statistics Canada released the *Workplace and Employee Survey* (WES) 1999, a survey that allows better measurement of informal training in small firms because both the employee and employer questionnaires tabulate responses such as the frequency and types of on-the-job training, subjects of training, and the use of various types of learning methods.[33] WES 1999 confirmed previous research results that these smaller firms do not support classroom or formal training to the same extent as the larger firms, and that small firms are equal to large firms in supporting on-the-job training.

WES 1999 also confirmed previous findings concerning investment or sponsorship of training. Very small firms (fewer than 20 employees) pay for only 51.1% of training offered to employees, while larger firms (20 or more employees) pay for more than 90%. In terms of employee participation in the training offered, there was a negligible difference between small and large firms. In 1998-99, employee participation in on-the-job training was 32.2% for firms of 20-99 employees, and 30.9% for firms of 100 to 499 employees.

The CPRN's study did not distinguish growing firms from others, but it observed that training by small firms, at least in the formal sense, may not be the best use of resources. As noted previously, in some instances, recruitment of the necessary skills may be a better option.

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[33] Statistics Canada, HRDC, *Employer and Employee Perspectives on Human Resource Practices,* 71-584-MIE No. 1, September 2001. (1998-99 data)

Recruitment

Most of the research on human resources development reviewed for this paper concentrates on training rather than recruitment. However, the evidence strongly suggests that finding and paying for the right people is essential for sustained growth.[34] As with training, entrepreneurs facing higher fixed costs and uncertain returns may rely on informal approaches to attract and retain qualified staff. But evidence explaining the effectiveness of these approaches, particularly at different stages in a firm's development, is limited.

According to a February 2001 survey by Canadian Federation of Independent Business, when the demand for qualified labour outweighs supply, small businesses looking to hire are left empty-handed. Nearly one half of the respondents to this survey indicated they have difficulties finding qualified labour to meet their staffing needs. Three quarters of respondents to their survey believe that lack of people with the right skills in their area is the number one reason for hiring difficulties. Among all the firms that experienced a shortage of qualified labour, 83.7 percent can't find skilled workers because of the lack of people with appropriate skills in their area. Furthermore, no segment of the small business sector is left untouched by labour shortages. Firms reporting labour shortages come in all sizes and are based in all regions and industries.[35]

The *Expert Panel on Skills* notes that the most common responses to the shortages of skilled personnel is to improve recruitment techniques, extend hours of work, train lower-skilled personnel and outsource work as a short term solution. The *Expert Panel* found it significant that only a small minority of firms reported raising salaries to attract the people they need. However, another conclusion drawn from these consultations is that many employers do not yet recognize that many people want something above and beyond salary from their employment relationship and that there appears to be considerable room for improvement in the recruitment and retention practices of most Canadian firms[36] .

The manner in which personal and work-related support is provided by small firms is not well understood. Again, research tends to measure only the existence of formal programs offered by business, and overlooks the many informal approaches used by smaller

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[34] Barnard, P.; Fischer, E.; Reuber, R. and Rumball, D.; *Elusive Gazelles - Finding Them and Helping Them Grow,* Fulcrum Partners, 1998.

[35] CFIB, *Help Wanted,* a survey on the shortage of qualified labour, February, 2001

[36] Expert Panel on Skills, op. cit. 2000.

firms to recruit and retain skilled personnel. As firms get larger they tend to have more formal approaches to employee issues but very few firms that are less than a year old offer formal approaches to supporting the needs of the employees. The *Expert Panel on Skills*[37] notes that governments have spent considerable resources over the past 15 years trying to find easy, accessible and inexpensive 'fixes' to assisting small businesses with their human resource challenges, however, human resource development continues to be a major challenge for small firms.

4.3 Innovation

Lack of data is an ongoing challenge in better understanding the innovative performance of small firms in Canada. While important new reference sources on innovation are becoming available, such as the Conference Board's 3rd Annual Innovation Report and the 1999 Survey of Innovation by Statistics Canada, they do not break out the data by firm size, thus limiting their usefulness as analytical tools for small business policy. What evidence we do have vis-à- vis small firms and innovation suggests that the more successful growing small firms place greater emphasis on adopting new technologies, R&D capability and management techniques. Impediments to greater innovation by small firms include disadvantages due to scale economies, financing, lack of information and barriers to interfirm cooperation.

Innovation is the process through which new economic and social benefits are extracted from knowledge. This knowledge may take the form of new scientific or technical progress, or through a new technique of management, marketing or entrepreneurial flair. Through innovation, knowledge is applied to the development and commercialization of new products and services or to new ways of designing and producing an existing product or service. Innovation has always been a driving force in economic growth and development, indeed, the improvement in an economy's productivity is the prime way that societies improve their economic well-being over time. And in today's knowledge-based economy, the importance of innovation has increased dramatically.

Understanding the innovation performance of small firms and the barriers they face is critical to Canada's productivity. It is noteworthy that small firms play a bigger role in the Canadian economy than in the United States. As Canada has proportionately fewer large and medium-sized firms, innovation and growth amongst small firms is more relatively important to Canada's economic growth.

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[37] Ibid.

In reviewing the innovation challenge facing small firms in Canada, it is useful to consider at least two classes of enterprise:

- Growth Firms: High growth potential firms with aspirations to become large firms. These are likely to be found in knowledge-based sectors but are not exclusively found in that part of the economy. They are also likely to see the world as their market and to be keenly sensitive to their competitors throughout the world.

- Foundation Firms: Slow growing, or non-growth firms with more local markets. This category would include the vast majority of Canadian small and medium sized businesses in sectors such as services and retailing. The markets for these firms is primarily local.

When discussing innovation and small firms, many commentators are implicitly speaking about the challenges faced by small, high growth potential firms in knowledge-based industries. Not all, but certainly the large majority of firms in this category are technology-based and therefore scientific research is a foundation of their growth. There is a great deal of interest in these firms as they have the potential to change rapidly. Many of Canada's and the world's most notable corporations were entrepreneurial start-ups in the not-too-distant past: Microsoft, Newbridge, Dell, Mitel, PMC Sierra, Research in Motion, etc. These are the firms that have spawned an active and growing venture capital market, where investors are willing to take very high risks and become involved in management in order to participate in potentially very large rewards. Even after the "dot com meltdown" and reversals in the stock market, few doubt their importance for the future.

The importance and success of these firms is a bit of a paradox given the significant obstacles that they face in their competition with large, established firms. In developing a new product or service, the established firm can call upon significant resources that are not available to the start-up. Financing is much less expensive for the established firm and the transitions from research, to development, to production and sales are much less perilous. New, innovative products usually face competition from around the world very quickly, so these firms may find themselves up against global players. And yet throughout the world, entrepreneurial start-ups have shown themselves to be significant players in the knowledge-based sectors. The intangible advantages of the small, entrepreneurial company can overcome the disadvantages inherent to their size. Failure rates are high and many successful firms are bought out by larger firms, but small entrepreneurial firms are a crucial element in the country's innovation performance.

The role of public policy with respect to innovation in "growth" firms takes many forms, but essentially they try to reduce the disadvantages that these firms face in competing with larger firms. Support for basic research, creation of a positive fiscal environment for companies to do their own research and development, and initiatives to make investment in these firms more attractive are the kinds of actions that governments have taken.

The role of innovation in "foundation" firms is much less commented upon. Innovation in this class of enterprise is crucial however, given its contribution to the economy and the number of people that it employs. Few of these firms will conduct research and development on their own, but if they are not willing or able to stay abreast of new developments, they may find themselves becoming less profitable or vulnerable to more innovative competition. While many of these firms are not usually exposed to competition from large or foreign companies, if they fall behind industry norms it may be to the advantage of large or foreign firms to move into heretofore local markets. So it is important for foundation firms to be concerned about innovation. The sources of innovation for these firms may be quite different than for fast growing firms at the forefront of their industries. Suggestions from suppliers and customers and the purchase of off-the-shelf technology will likely be critical. Innovation in management and marketing can be the difference between success, mediocrity and failure for these firms.

Public policy is less focused on the innovation needs of "foundation" firms. The tax system includes some incentives for the purchase of technology, and various programs have been introduced to encourage firms to implement e-commerce strategies.

Small Business Innovation Performance

The lack of data is a major limitation in our understanding of innovation in small firms. There are numerous surveys and studies on innovation, but for the most part these sources do not differentiate according to business size. There is even less information that makes a distinction between "growth" and "foundation" firms (what follows deals mostly with growth firms). Much of the existing data on innovation is compiled from Canada's business sector as a whole and, as such, is weighted towards Canada's large firms. Consequently, it is not possible to provide a clear picture of the innovation landscape for small businesses, a factor that bears consideration in reviewing recent studies such as the Conference Board of Canada's 3rd Annual Innovation Report.

Another limitation of the data is that innovative activity is often measured by way of R&D activity. These types of data can underestimate small businesses' R&D activities in two ways. Smaller firms tend to be more likely to conduct occasional, or less organized R&D, and they are less likely to use separately dedicated R&D facilities. Averaged over all firms in the economy, the degree of innovation as measured by R&D investment is lower in small firms than in large business. Baldwin notes however in a study examining the evidence on the innovative activity of large versus small firms that by using a measure of the number of innovations per employee, the small-firm innovation rate is higher than the large-firm rate.[38]

Looking only at R&D outlays, a 1998 Statistics Canada survey found only 7,000 firms in Canada, with a total expenditure of $9 billion. The 100 largest firms – each employing over 2,000 people, which represent a tiny minority of all firms – spent almost half of that total, and this was equivalent to about one percent of these firms' revenues. In contrast, the 6,000 firms with fewer than 100 employees accounted for 15 percent of total outlays, but this constituted about 5 percent of their revenues.

The Conference Board's indicators of innovation include: R&D intensity; industry-funded business expenditure on R&D as a share of the domestic product of industry; government budget appropriations or outlays for R&D; researchers involved in R&D, and national patent applications.[39] The Board's 3rd Annual Innovation Report shows that Canada's innovation performance continues to be weak, and that other OECD countries are outperforming us. As a result, Canada's productivity, wealth and job creation capacity are more vulnerable than they would otherwise be.[40]

The use of advanced technologies is another indicator of innovation capacity. A 1998 survey of advanced technology in Canadian manufacturing found that small firms are considerably behind larger firms in the use of advanced technologies.[41]

Baldwin's research findings on innovation and firm size in the manufacturing sector suggests that innovation is positively related to firm size[42] (see Table 4). Generally, the larger the firm, the greater the use of innovative products or processes.

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[38] Baldwin, *Strategies for Success,* op.cit. 1994.

[39] Newton, K., *On Canada's Innovation Gap,* 2001

[40] Conference Board of Canada, *Investing in Innovation, 3rd Annual Innovation Report*, November, 2001.

[41] *Survey of Advanced Technology in Canadian Manufacturing*, 1998.

[42] Lee, F., and Newton, K., "Innovation of SMEs in the Knowledge-Based Economy", *Journal of Small Business and Entrepreneurship*, vol. 15, no. 4, winter 2000-2001

Table 4: Percentage of Firms with Product/Process Innovation in Canadian Manufacturing, 1989-91

	Number of Employees				
	All firms	0-19	20-99	100-499	500+
Product or Process Innovations	34.2	29.9	38.9	41.2	63.1

Source: Baldwin (1997)

An earlier Baldwin study had already found that successfully growing small firms place great emphasis on adopting new technologies, refining the technologies of others, and R&D capability. This is what distinguishes them from less successful firms.[43]

Innovation, of course, goes well beyond spending on R&D; it is also seen in product and process innovation through the application of existing technology or knowledge in new ways that add value to the firm. Unfortunately most studies in this area focus on international comparisons of R&D and little research has focused on the more qualitative aspects of innovation.

Impediments to Innovation in Small Firms

Although many small firms are key providers of innovation, the scale economies in R&D put small firms at a cost disadvantage. This disadvantage could be financial because an enterprise may need a certain size to be able to finance a particular R&D project, or due to a smaller output over which the benefits of the innovation could be realized.

Small firms may also have difficulties in accessing financing, particularly external capital for risky projects. They do not have a portfolio of products over which to spread the risks which would give lenders confidence. Lenders are not always well informed of the complexities of innovation in small firms and may not have the tools to evaluate these kinds of risks. The lenders' difficulties with risk evaluation may result in small entrepreneurs being unable to obtain financing for innovation and economically profitable projects.

Another barrier to innovation for small firms relates to the transmission of information. Information on technologies, technical services and markets is often more

[43] Baldwin, J., *Innovation: the Key to Success in Small Firms*, Statistics Canada, 1995.

difficult to obtain for small firms than for large businesses. Large businesses create and transmit much tacit knowledge via internal networks, inter-company relationships and extensive links with customers and suppliers. Small firms, on the other hand, tend to rely on codifiable knowledge transmitted by customers and suppliers and generally have to rely on inter-company cooperation, which may be more difficult to obtain than agreements internal to a large firm.

Research has attempted to further define impediments to innovation. The following table summarizes the innovation impediments faced by Canadian firms as identified in the 1997 Survey of Innovation and Advanced Technology.[44]

Table 5: Impediments to Innovation (Survey Percentages)

		Number of Employees			
Category	All firms	0-19	20-99	100-499	500+
Lack of skilled personnel	45.9	44.1	49.2	48.3	43.4
Lack of info on technologies	30.5	30.8	30.9	33.5	20.4
Lack of info on markets	37.2	42.7	29.8	31.5	30.0
Lack of technical services	20.0	21.1	21.2	14.3	12.7
Barriers to interfirm cooperation	18.9	21.8	17.2	14.3	6.1
Barriers to university cooperation	7.6	9.3	5.2	5.5	7.1
Government standards	30.6	34.0	26.8	21.7	31.0

Source: Baldwin (1997)

There are few significant differences in the impediments to innovation between firms of different sizes. Firms of all sizes identified a lack of skilled personnel as the most important impediment to innovation. Lack of information on markets and barriers to interfirm cooperation are seen by the smaller firms to be more significant than larger firms. This is not surprising since small firms are more handicapped at the resource level. A 1996

[44] Op. cit. Lee and Newton, 2001.

Statistics Canada paper entitled *Growing Small and Medium Sized Enterprise Survey* found that innovators place greater emphasis on the contribution that their workers' skills make to the company's growth and are much more likely to emphasize a human resource policy that develops skilled employees via training programs. Subsequent studies have found that both a lack of information on technologies and markets and a lack of technical services are more frequently indicated to be impediments by SMEs than by large firms. SMEs also regard interfirm cooperation to be a problem more frequently than large firms.[45]

Underlying many of the barriers to greater innovation in small firms are weaknesses in management skills, an essential ingredient to innovation. As noted, the evidence shows that growth firms stress management skills and advanced management practices above all functional strategies for success.

4.4 International Marketing

International markets are essential to our economic prosperity. Although there are numerous government programs aimed at assisting businesses to become export-ready, the participation rate of small businesses in exporting remains low. While not all small firms have products or service suited to the export market, increased participation in exporting by Canada's small business sector will not only allow them to capitalize on global opportunities, but will contribute to the creation of more and better jobs at home. An understanding of the factors affecting the exporting decision by small business may provide insight into the impact of Canada's marketplace and trade policies.

Canada relies on trade for jobs and growth more than any major industralized country. We have a relatively small domestic market, and thus need access to the global marketplace to thrive and grow. Total trade in Canada (exports plus imports) represents close to 80 percent of our GDP, and almost 2 out of five jobs created in Canada since 1993 are export-based[46]. Furthermore, international linkages play an important role in adapting leading-edge methods and processes by providing access to world class innovations and developments.

Research also suggests that small firms that adopt an export strategy are more successful. For example, Baldwin found that growth firms are outward-oriented. They sell a large percentage of their products outside their home province to other Canadian regions

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[45]Ibid.

[46]Team Canada Inc. *Business Plan 1999-2000*

and are active participants in export markets. Baldwin also found that marketing and product innovation are associated with success, and product and process innovations are in turn associated with greater export penetration.

Despite Canada's impressive trade statistics and awareness of the benefits from trade, we have a very narrow export base, with a low participation rate among SMEs. Statistics Canada's Exporter Registry provides data on the value of exports by industry, size of exporter, province of residence and destination. In 1998 and 1999 the distribution of exporters by firm size was similar to the pattern in previous years. Of nearly 30,000 exporters, a small number (about 1500 or 5 percent) of the largest exporters (with over $25 million worth of goods and services) accounted for over 80 percent of the value of all exports. Small exporters (under $1 million) comprised almost two thirds of the total number of establishments but contributed less than 2 percent of the total value of exports.

Table 6: Number of Exporters and Value of Exports (millions of current Canadian dollars) 1993-1999

Exporter Size	1993		1995		1997		1999	
	#	$	#	$	#	$	#	$
$30,000 - $99,999								
Number of Firms & Value	6,674	391	7,569	445	7,655	452	6,128	367
% share	29	0	27	0	26	0	21	0
$100,000 - $999,999								
Number of Firms & Value	9,777	3,401	11,778	4,191	12,492	4,589	12,138	4,603
% share	42	2	42	2	42	2	42	1
$1,000,000 - $4,999,999								
Number of Firms & Value	3,927	9,098	4,909	11,622	5,649	13,362	6,199	14,880
% share	17	5	18	5	19	5	21	5
$5,000,000 - $24,999,999								
Number of Firms & Value	1,853	20,803	2,389	27,490	2,909	33,180	3,238	37,004
% share	8	12	9	11	10	12	11	11
$25,000,000 and over								
Number of Firms & Value	899	142,659	1,156	200,485	1,340	227,294	1,540	268,349
% share	4	81	4	82	5	82	5	83
Total Number of Firms & Value	**23,130**	**176,352**	**27,801**	**244,233**	**30,045**	**278,876**	**29,243**	**325,203**

Source: Statistics Canada, *Exporter Registry*, July 2001[47]

While the total number of exporters has been fairly stable since 1995, growing only

47 Statistics Canada Catalogue No. 65-506-XIE, September 2001. The registry includes domestic exports (goods grown, extracted or manufactured in Canada) and goods of foreign origin that have been materially transformed in Canada. It excludes establishments with annual domestic exports under $30 000, groceries, duty-free shop exports and goods of U.S. origin returning to the United States.

1.3 percent per year, the value of exports has grown 7.4 percent per year on average. The proportion of the smallest exporters (under $100 000) has continued to decline, to 21 percent in 1999, while the proportion of those in the $100 000 to $1 million range has remained stable at around 42 percent of total numbers. The next size of exporters ($1 million to $5 million) has continued to gain ground, standing at 21 percent of all exporters in 1999, up from 18 percent in 1995; however, its share of export value has remained under 5 percent. Similarly, while the second-largest size ($5 to $25 million) showed significant increases in numbers and reached 11 percent of all exporters in 1999, its share of value overall remained under 12 percent.

As expected, the number of new exporters in any year is small; however, the size of new exporters has been gradually increasing. In 1999, new exporters with exports under $100 000 accounted for 47 percent of all new exporters, down from 54 to 58 percent recorded from 1994 to 1997. In contrast, new exporters in the next size range (from $100 000 to $1 million) accounted for 43 percent of all new exporters, up from an annual average of 38 percent from 1994 to 1997. The increase in size could be explained by an increase in the volume of exports, an increase in prices or a combination of both factors.

Challenges and Opportunities for Small Business

Small businesses face particular challenges in "going global", most of which relate to availability of specialized and dedicated resources, and economies of scale. Up-front costs of export marketing can be high, and of course are relatively higher for small firms. Developing export markets generally takes more time and resources than domestic markets, with longer periods before a return on investment is realized. This poses particular challenges if existing revenue streams are not sufficient to finance export development. In addition, there is added financial risk. While there are mechanisms to limit risk, such as export credit insurance, getting paid when your customer is in a foreign country is often more complicated. A small business may not have the clout of a large firm when it comes to payment from foreign customers.

Researching new markets and adapting products and services to meet foreign demand is critical, and is more difficult and time-consuming than analyzing a domestic opportunity. Finding the time and expertise to pursue international markets is more difficult for small firms with few employees. Often it is the owner who has the knowledge and salesmanship to attract foreign buyers, but this can mean long absences from the other critical functions they also perform as chief executive.

Finally, the paperwork required to export is more extensive than that involved in domestic sales, and can appear to be complex. This alone can discourage a smaller firm from exploring foreign markets.

Despite the challenges, smaller firms do enjoy certain advantages over larger firms in the international marketplace. Smaller firms are able to react more quickly to changing market conditions, and they are better equipped to handle shorter production runs. Smaller firms may also be better positioned to deal with special needs and demands for customized products and services.

There are many opportunities to be pursued by small firms in the international marketplace, and those entrepreneurs who have gone global have reaped the benefits, which can include increased sales and improved profitability.

4.5 Financing for Growth

Traditional debt financing has been relatively slow in responding to the needs of small firms particularly those in a growth phase, so firms that need outside financing for growth must turn elsewhere to support that growth. A spectrum of financing institutions, instruments and approaches are required to finance firms as they go through the many stages of growth. It is critical for the firm to understand that what happens at each stage impacts the decisions and actions of players who enter at later stages. Going to market too early, or seeking too little may also restrict a company's ability to finance subsequent growth from the proceeds. Mis-steps along the way lead to the types of barriers that prevent small firms from achieving their potential to become medium or large firms.

Research suggests that much progress has been made in the last decade on the supply side and that there is sufficient capital in Canada to meet most of our growth requirements. Opportunities for risk-capital investing in Canada have expanded. Public policy has a role to play in determining how and where this capital is allocated through its influence on the functioning of the financial marketplace, the interaction of the players, the flow of information, and the establishment of rules necessary to balance the protection of the players against the goal of maximizing the flow of investment capital.

Access to financing remains a concern for small businesses, particularly start-up and young firms. In addition, financing growth is a major challenge for firms in all phases of the business cycle. Most reports on SME financing recognize that new and small firms are usually unattractive to conventional lenders as they lack a financial track record and have few tangible assets on which to secure traditional asset-based debt financing. As well, these firms may often prefer equity financing because they have few revenues to service debt financing.

At the early stage of a business, love money (i.e. capital coming from family members or friends) and informal investment (i.e. capital provided by informal private investors[48]) often represent the only sources of financing once the entrepreneurs' own savings have been committed. Indeed, some research suggests that informal investment accounts for the largest, oldest, and most frequently used source of external equity finance for small and young businesses[49]. Business angels play an important role, particularly for new technology firms, not only as a source of capital but as providers of management expertise. While angel investors often look to make hefty returns in the technology sector, actual investment experience through the Canada Community Investment Plan (CCIP)[50] found that they made nearly 70 percent of their investments in non-technology sectors, and participated in about 40 percent of the investment deals done, accounting for about 18 percent of overall dollars invested related to this initiative.

Several reports suggest that informal investment markets operate inefficiently, principally due to an asymmetry of information which interferes with optimum deployment of that money. Due to the fragmented nature of the market, those with capital and those in need of it are often unable to find one another. The consequence is that most business angels say that they are unable to find sufficient investment opportunities and small businesses say they cannot find investors. When they do find each other, the lack of transparency in the market may lead to deals being misvalued, reducing the growth potential of the new firms. The development of networks of locally or regionally based business angels is often suggested as a possible solution to address this information asymmetry. Other proposals to increase the availability of these early-stage financing options for new technology firms include: revision to the tax treatment of equity investment and capital gains and losses; reform of securities regulations; and increased awareness and knowledge of informal investment by entrepreneurs.

The lack of transparency of this market and its fragmented nature also present significant research challenges. Recent studies provide a good overview of the practices and patterns of informal investors, as well as on their value added to the investee, but further investigation on the supply side would be very useful. A key side benefit of such research would be the development of generally accepted methodologies for overcoming the research challenges posed by the nature of this market. This information could then be used to inform policy development.

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48 Informal investors, or business angels, are individuals who make risky, personal investments into the ventures of entrepreneurs.

49 Riding, Allan L., *Financing Entrepreneurial Firms: Legal and Regulatory Issues*, Task Force on the Future of the Canadian Financial Services Sector, September 1998.

50 Under the CCIP the federal government shared the costs of providing investment facilitation services in 22 communities -- outside the major financial centres– across Canada. Through this plan over the last five years (1997-2002) local experts helped growth oriented entrepreneurs access about $175 M of risk capital from both angel investors and venture capitalists.

Financing Knowledge-Based Industries (KBIs)

New technology firms represent additional risks related to technical, production and commercialization uncertainties. Moreover, such firms are often seeking start-up capital in amounts which make them unattractive to formal venture capital firms for whom investments of less than $1 million are simply uneconomic. During the industrial revolution and the subsequent growth generated by heavy industry, size and scale were key factors for success. Achieving this demanded large amounts of capital. However, financing risks were mitigated for providers of capital as these kinds of industries required large, hard assets which could be sold in the event of a business failure. Therefore, models of financing were developed which were well suited to an industrial economy. The "new economy" does not fit these models and firms have had to look elsewhere for capital as traditional sources have not met their needs.

New technology firms have tended to grow faster and more than other start-ups and SMEs[51]. So from both a business and public policy point of view, their continued growth and success are critically important. The success of this sector is clear for the community in which it is located and for those who have invested in it. Yet the financing of the sector, particularly at an early stage when businesses have few tangible assets, challenges many basic and long-held notions of what is practical, sensible and credit-worthy. New markets and institutions are being developed to meet these needs and older markets and institutions are being stretched into new areas.

Among the challenges faced by new technology firms, the most frequently identified and discussed is access to capital that is both adequate and timely. This is crucial to the innovation process of translating the results of research and development into commercial outputs and economic activity. In addition to the issues identified in the debt market for SMEs (e.g. lack of revenue, size of financing needs, perceived risks, lack of knowledge from financial institutions, and inflexible arrangements) new technology firms have to rely more on equity.

The use of alternative sources of financing varies depending on the stage of a firm's development and its financing needs, and could include love money, informal investment, and venture capital. As well, some technology firms may be inclined or be pushed more rapidly to Initial Public Offering (IPO). Unfortunately, the markets for many of these sources of financing are still new, fragmented, non-transparent, small and/or insufficiently specialized in Canada. Important information and knowledge gaps still exist. We need a better understanding of the functioning of these markets to be in a better position to support the growth of new economy firms.

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[51] OECD, Technology, Productivity and Job Creation - Best Policy Practices, April 1998.

Canadian Risk Capital Marketplace

The financial services industry is undergoing significant and rapid change worldwide through consolidations, mergers, and acquisitions between banks and non-banks. In Canada, significant changes are also expected through the implementation of financial sector reform legislation, which should increase competition by encouraging new entrants through liberalized ownership rules, by expanding access to the payment system, and through more flexible regimes for credit unions and foreign banks. This increased competition is likely to have a positive impact on financial services in general. It is unclear however, whether this will result in increased access to financing for new smaller firms that currently fall outside the credit and risk appetite of private institutions, or how these changes will impact on non-traditional sources of financing such as informal investments and venture capital.

Some adjustments have already been made to the tax system through the Budget 2000 and the Economic Statement issued later that year. Other measures will be implemented through the Canadian financial services sector reform to address the competition issues. However, further research and analysis are required to monitor the impacts of these changes on the access to capital by new technology firms and to investigate other structural issues related to the Canadian market for informal investors, venture capital and IPOs.

Venture Capital

There are many issues related to the structure, regulation, taxation and operation of the venture capital industry in Canada, each of which has a direct impact on the availability of this form of financing. Canadian venture investing has increasingly concentrated in recent years on technology opportunities which accounted for about 89 percent of total investments in 2000, up from about 64 percent in 1995.

Despite the significant growth achieved by the venture capital industry in Canada, many analysts suggest that access to sufficient venture capital remains a key issue. The challenge is that venture capitalists tend to invest in somewhat more established firms, looking at early-stage firms only when there is very clearly demonstrated potential for rapid growth. Research suggests that a number of gaps remain. These include:

- **early-stage gap** – investments in small, early-stage companies are not the strategic focus of most private investors because of the higher risks associated with such investments;
- **dollar gap** – per capita venture capital investment remains relatively low compared to the top countries like the U.S.A. and Israel;
- **institutional gap** – Canadian institutional investors are not playing an active role when compared to their U.S. counterparts. This is often explained by a lack of

knowledge of the asset class by pension fund managers and the absence of reliable data on relative performance of Canadian venture capital funds; and

- **knowledge gap** – there is a relatively narrow base of expertise and knowledge of Canadian venture capitalists.

At about $18 billion Canada's venture capital industry is relatively small. Its degree of specialization may impact the relative valuation of companies and may affect its ability to adequately assess the risks of emerging firms and their ultimate ability to grow out of "small" into "medium". This leads to questions about the subsequent valuation of companies at their initial public offering stage. If they are under-valued and the market conditions do not favour their issuing more shares, then they risk being unable to continue to grow and innovate.

Initial Public Offerings

As companies continue to grow, larger amounts of equity investment are required to sustain this growth and firms tend to turn to IPOs as a vehicle for raising these funds. Although IPOs usually supply continued growth capital for companies, they are also a successful exit strategy for venture capitalists for it allows them to recoup their original investments and realize any gains. Thus the IPO process is a critical element to providing access to capital to new technology firms as it further increases the funds available as well as building experience within venture capital firms.

As a firm grows and matures, internally generated funds are key to financing operations and growth. Often though, additional equity investment is required, usually through post-IPO follow-on stock issues. This type of financing is again particularly important for knowledge-based firms, which often do not have sufficient fixed assets to provide security for large debt financing.

The most significant factors surrounding IPO and post-IPO financing revolve around the capacity of the Canadian markets to meet the needs of Canadian SMEs, in particular new technology firms, and the merits of going public in Canada as opposed to doing an IPO in the U.S. Initial research in this area suggests that the cost of "going public" [52] in Canada is somewhat lower than doing so in the United States, yet many Canadian firms feel they must be listed on the NASDAQ even before they list on the Toronto exchange or the CDNX. Why is this? What are the factors motivating it? What impact does such a decision have on the eventual location of key corporate structures? These are among the important questions for Canadian policy makers; however, little research has been undertaken in this field.

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[52] In other words, launching an initial public offering on a stock market.

A dynamic market for financial services

The emergence of major new players – the leasing industry and credit card companies – has led to some restructuring of products being offered to SMEs. Many banks, for example, are trying to move most of their SME clients off their commercial lending books and onto the personal banking side of their business, offering them credit card type products instead of traditional term loans. At the same time, they have affected changes to credit adjudication, which means that companies' applications are more likely to be credit scored against statistical models than ever before. It is not yet clear what impact this has on the availability of financing. While debt financing products have been changing, there are also more offerings in the mezzanine financing area. The Business Development Bank of Canada has been a leader in the quasi-equity financing field. Mezzanine or quasi-equity financing is particularly suited to growing young firms. Unfortunately, there are few private sector financial service providers competing in this market.

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TABLES AND FIGURES

STATISTICAL OVERVIEW

Introduction

Development of effective small business policies requires a thorough understanding of the sector and the challenges it faces. The foundation for analysis is credible data. This statistical overview first reviews the definitions of the term "Small business." Then the number and size distribution of business establishments in Canada as of June 2001 are discussed, as are changes since 1995. We next look at entries and exits of businesses, and survival rates. Finally, we review patterns and trends in paid- and self-employment.

The most common measure for size of business is the number of people employed; a small business is most commonly defined as having fewer than 50 or 100 employees.

In June 2001, there were some 2.1 million businesses in Canada. About half had no employees on the payroll. Of the other half, 58% had just 1 to 4 employees and 98% had fewer than 100. A comparison with 1995 suggests that firms with 20 or more employees have become relatively more numerous over the period.

Entries and exits of firms (almost all by firms that have fewer than 5 employees) vary considerably over the business cycle, having ranged between 115,000 and 140,000 per year over the last 15 years. Net entries of very small firms turned negative only during the 1991~92 recession, but net entries by firms with more than 50 employees did not regain positive territory until 1996~97.

Survival rates of small firms (fewer than 100 employees) drop off considerably after the first year in business. Rates are down to one-third after 4 to 6 years for very small firms (fewer than 5 employees) and after about 10 years for those with between 5 and 100 employees.

About 3.7 million employees in the private sector, or 38% work for businesses with fewer than 50 employees and another 17% or 1.7 million work for businesses with between 50 and 300 employees. About 2.3 million persons or 16% of the Canadian labour force is currently self-employed, down from its peak of 2.5 million in the first quarter of 2000. The drop-off was particularly strong among the self-employed who are not incorporated and have no paid help, who make up half of the total number of self-employed persons. Those who were incorporated and had no paid help have grown the strongest over the last 24 years, and have continued to show strength in 2000.

Definition of Small Business

There have long been definitional issues pertaining to small business research, as there is no consensus on what the terms "small business", "business owners," or even "SME" embrace.

The size of a business can be defined in many ways, for example by the value of its annual shipments or sales, its annual gross or net revenue, the size of its assets or by the number of employees. Many public organizations define small businesses for statistical purposes according to specific policy or program requirements. For example, the Export Development Corporation defines small businesses or "emerging exporters" as firms with export sales under $1 million. Definitions also vary by industry.

Consistent with many governments around the world, the Government of Canada uses the number of employees as the main criterion for categorizing small businesses. Often, a business establishment producing goods is considered "small" if it has fewer than 100 employees; if it provides services, a business with fewer than 50 employees is considered "small". A "micro" enterprise is defined as a firm with fewer than 5 or sometimes 10 employees. Businesses with more than 50 or 100, but fewer than 500 employees are defined as "medium". The term "SME" (for small and medium enterprise) is used to refer to all these components of the economy together.

As will be seen, in practice, reporting on small businesses often cannot adhere to any "ideal" definition due to data limitations.

The term SME embraces a wide variety of businesses. The three most common legal forms are corporations, partnerships and sole proprietorships.

A business establishment, as defined by Statistics Canada, must have at least one paid employee, or have annual sales revenue of at least $30,000, or be incorporated and have filed a federal corporate income tax return at least once in the previous three years.

It is important to distinguish between businesses and the people who operate or work for a business. Business operators or owners will often be identified as self-employed; their numbers, and the number of people working for small businesses, are discussed later in this Annex.

Number of Small Businesses and Size Distribution

As of June 2001, there were just over 2.1 million business establishments in Canada (Table A1). About one-half of all business establishments maintained a payroll of at least one person (possibly the owner); these are called "Employer Businesses."

About 58% of all businesses were located in Ontario and Quebec, 35% in the western provinces, and 6% in the Atlantic provinces. The distribution of employer businesses across provinces is almost the same as that of all business establishments.

Relative to the population, there are more business establishments in the western provinces, Yukon, and Prince Edward Island than there are anywhere else. The highest rate is found in Saskatchewan, at 92.2 per 1,000 population. Among the provinces, Newfoundland, Nova Scotia and New Brunswick have the lowest ratios of establishments per 1,000 population. Ontario and Quebec's are below the national average of 68.8, at 63.5 and 66.4 establishments per 1,000 people respectively.

Taking the ratio of provincial or territorial Gross Domestic Product per business establishment reveals that Ontario scores highest at $578,000 per establishment; Newfoundland and Alberta also come out above the national average of $499,000, while Prince Edward Island and Saskatchewan obtain the lowest ratios. Except in Alberta, provinces with more business establishments per 1,000 population than average all have lower than average GDP per business.

Table A1: Total Number of Business Establishments by Province, June 2001

Provinces/Territories	Business Establishments			Total No. of Businesses per 1000 Population	Thousands of GDP $ per Business Establ.
	Total	Employer Businesses	Indeterminate*		
Newfoundland	25,853	17,629	8224	48.1	545
Prince Edward Island	10,457	7,066	3391	75.7	320
Nova Scotia	51,183	31,757	19426	54.4	470
New Brunswick	44,462	27,881	16581	58.9	443
Quebec	490,018	242,644	247374	66.4	456
Ontario	742,594	342,532	400062	63.5	578
Manitoba	74,481	35,959	38522	65.0	454
Saskatchewan	94,188	40,921	53267	92.2	356
Alberta	271,734	133,247	138487	90.3	526
British Columbia	305,469	156,591	148878	75.3	418
Yukon Territory	2,799	1,700	1099	91.5	402
Northwest Territories	2,646	1,812	834	64.7	338
Nunavut	718	561	157	26.2	3,448
Canada Total	2116602	1,040,300	1,076,302	68.8	499

Source: Statistics Canada, Business Register, June 2001; National Income Expenditure Accounts 2000; Estimates of Population by Age and Sex for Canada, the Provinces and the Territories, July 2000.

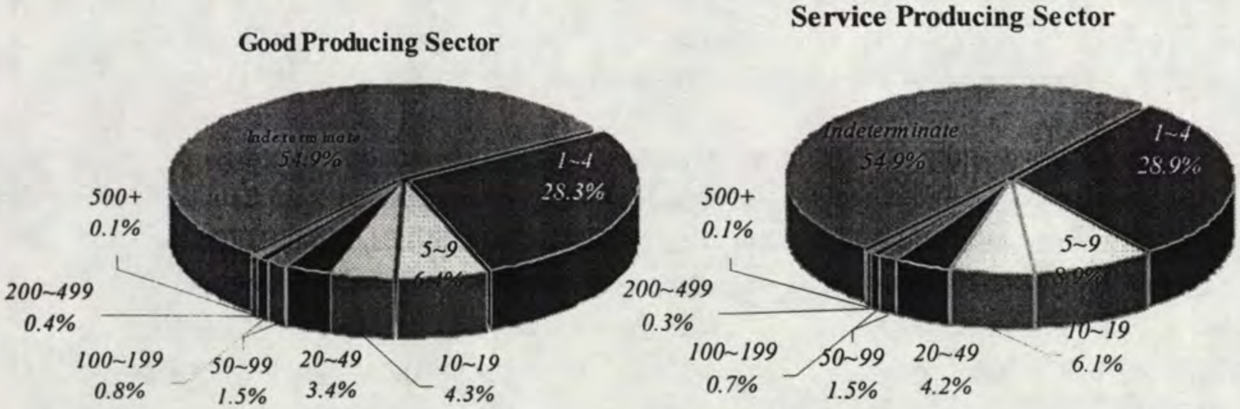
Note*: The indeterminate category consists of incorporated or unincorporated businesses without employees. The Business Register classifies a business as "indeterminate" when it cannot be determined through payroll data that the firm has /paid employees. The firm may well provide work under contract.

Of the 1 million employer businesses, only 2,759 or 0.3% had more than 500 employees. Ninety-eight percent had fewer than 100, 75% had fewer than 10, and 58% had just 1 to 4 employees. Goods-producing small firms (those with fewer than 100 employees) made up 97% of goods-producing employer business establishments. Of all employer businesses that provide services, 95% had fewer than 50 employees.

About one quarter of all business establishments, indeterminate and employer businesses alike, produce goods and the others provide services. The goods-producing sector has a higher percentage of "Micro" firms (1 to 4 employees) but lower shares of the small and medium sized firms (4~499 employees) than the service-producing sector (Figure A1). Approximately one-third of all businesses are either in Retail Trade, in Professional, Scientific and Technical Services, or in Construction, the three most populated industries.

Please refer to Annex C Table C1 for a detailed breakdown of business establishments by industry and size of employment as of June 2001.

Figure A1: Number of Business Establishments in the Goods-Producing and Service-Producing Sectors, June 2001



Source: Business Register, June 2001

A comparison of the number of employer businesses in Canada by size between June 1995 and June 2001 (Table A2) yields some clear patterns. (The June 1995 Business Register did not yet include Indeterminate businesses). Overall, the number of employer businesses increased by 9% over this period, composed of a 2% decrease among goods-producing establishments and an increase of 12% in service-sector establishments. Within the goods-producing sector, the employer categories with fewer than 50 employees had negative growth while those with more than 50 employees had strong, positive growth. Similarly, service-producing firms with more than 50 employees grew at a rate well above the sector average while the number of smaller firms increased at or below the sector average. In short, over the 6-year period, the larger employer categories have become more populated. However, since the distribution by size was so heavily skewed towards the smallest categories, the overall picture of the size distribution of Canadian businesses did not change dramatically: Establishments with fewer than 5 employees made up 60% of all employer businesses in 1995 and still were 58% in 2001. Comparable figures for firms with fewer than 10 and 20 employees are 77% vs. 75% and 89% vs. 87% respectively.

Provincial and more detailed industry distributions of establishments in 1995 and 2001 are shown in Annex C. The provincial data reveal that Alberta, Ontario, and the

Northwest Territories[1] each had a higher growth in the total number of business establishments than the national average. Conversely, the Atlantic provinces saw relatively slow growth and the number of business establishments in Newfoundland even decreased. Shifts by firm size observed nationally over the time period held for most provinces in that the highest relative growth rates were found in businesses with 20 or more employees. In addition to the faster growth of the larger businesses, Nova Scotia and New Brunswick also saw an above average growth in the 5~9 employees and 10~19 employees categories and so did Quebec in the 1~4 grouping.

A breakdown of the data by industry reveals significant variation. The highest growth in number of establishments was found in Finance, Insurance and Real Estate Operator, Business and Personal Services, Transportation and Utilities, Mining, and Fishing and Trapping. The number of Construction and Manufacturing businesses increased less than the average, the numbers in Wholesale and Retail Trade and Logging remained virtually constant and the number of establishments in Agriculture declined. The highest growth rates tended to be found in the larger size categories and this held true for most of the industries, with a few exceptions: the largest size categories in Agriculture, Fishing and Trapping, and Transportation and Utilities grew less than their industry average.

A look at the distribution of firms by employer size in terms of percentage share of the total number of firms in that particular industry, puts the absolute numbers in perspective. The percentage shares of each industry or province or territory, did not change significantly over time because the high growth occured in size categories with relatively few firms and did not have a large influence on the overall distribution.

[1] Including Nunavut

Table A2: Number of Employer Businesses by Firm Size, June 1995 and June 2001

June 1995

No. of Employees	Number of Business Establishments		
	Total	Goods-Producing Sector	Service-Producing Sector
1~4	571,849	161,101	410,748
5~9	166,997	36,867	130,130
10~19	109,574	24,450	85,124
20~49	70,862	18,695	52,167
50~99	21,924	6,949	14,975
100~199	10,178	3,248	6,930
200~499	4,683	1,668	3,015
500+	2,322	596	1,726
Grand Total	958,389	253,574	704,815

June 2001

No. of Employees	Number of Business Establishments		
	Total	Goods-Producing Sector	Service-Producing Sector
1~4	607,795	155,233	452,562
5~9	174,421	34,952	139,469
10~19	118,754	23,790	94,964
20~49	84,869	18,538	66,331
50~99	30,800	8,022	22,778
100~199	14,443	4,248	10,195
200~499	6,459	2,100	4,359
500+	2,759	616	2,143
Grand Total	1,040,300	247,499	792,801

Change, 1995~2001

No. of Employees	Number of Business Establishments					
	Total		Goods-Producing Sector		Service-Producing Sector	
	#	%	#	%	#	%
1~4	35,946	6%	-5,868	-4%	41,814	10%
5~9	7,424	4%	-1,915	-5%	9,339	7%
10~19	9,180	8%	-660	-3%	9,840	12%
20~49	14,007	20%	-157	-1%	14,164	27%
50~99	8,876	40%	1,073	15%	7,803	52%
100~199	4,265	42%	1,000	31%	3,265	47%
200~499	1,776	38%	432	26%	1,344	45%
500+	437	19%	20	3%	417	24%
Grand Total	81,911	9%	-6,075	-2%	87,986	12%

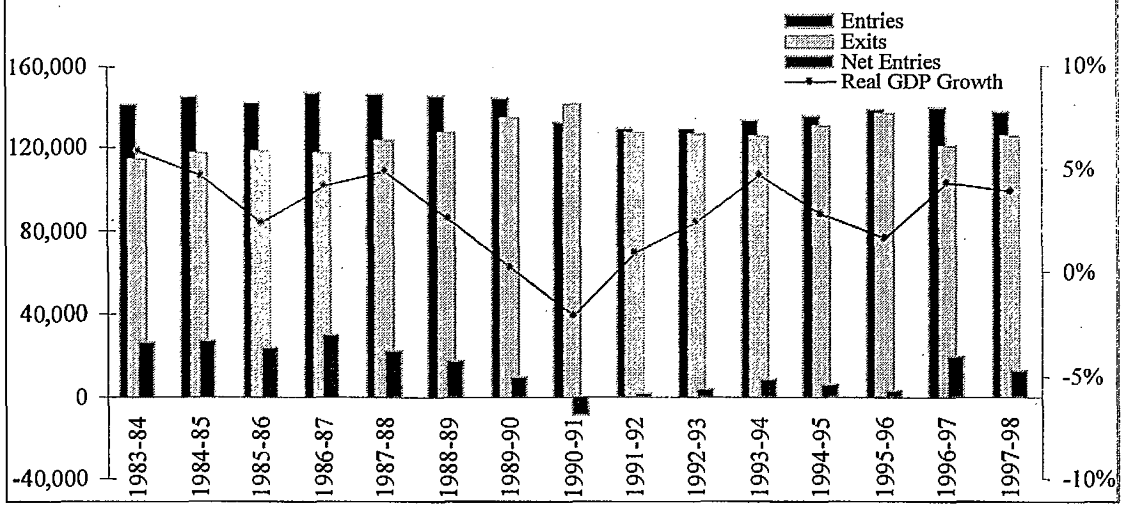
Source: Statistics Canada, Business Register, June 1995 and June 2001

Small Business Dynamics

Entries and Exits

Thousands of businesses enter and exit the market place throughout the year. Keeping track of these births and deaths is no easy matter. Our best source is Statistics Canada's Employment Dynamics which compares businesses in a base year with those in the year following. If a business is observed to exist in the year following but not in the base year, it is considered to be an "entry" and vice versa for an "exit" of a business. While there could be other reasons why a business cannot be found on the register of either year[2], in the main the data give a good picture of the turbulence of new and disappearing businesses.

Figure A2: Entries, Exits of Canadian Businesses 1 to 4 Employees, and GDP Growth, 1983~84 to 1997~98



Source: Statistics Canada, Employment Dynamics, 1983-1998; and National Income and Expenditure Accounts

On average during the 1983~98 period, 95% of the total number of business

[2] A firm reorganization may involve name changes, mergers, or a division of existing payroll accounts, and more. To the extent possible, false signals about firm deaths and births such as those are deleted from the data. A legitimate firm death can occur in certain merger cases, as a result of an owner's decision to cease operations, or because the firm has gone bankrupt, or for a number of other reasons.

entries and exits consisted of "micro" businesses; their percentage share stayed within a narrow range of 94% to 96%. This is what one would expect since smaller businesses are easier and less costly to create or to fold than larger firms.

Figure A2 shows the number of "micro" businesses (fewer than 5 employees) entering and exiting the market over the period 1983 to 1998. From approximately 115,000 exits in the 1983~84, the number gradually increased throughout the 1980s to reach its highest point in 1990~91 with approximately 141,000 annual exits. Since then, the number of exits has varied but has generally decreased to 125,000 annual business exits in 1997~98. The number of business entries remained relatively stable throughout the whole period at around 140,000, but did drop in 1990~91 due to the recession, only to climb back up through the rest of the decade.

Figure A2 also shows real GDP growth, a measure of the state of the economy. The business cycle is a key explanation for the variation of entries and exits over time. The number of entries increases when the economy expands and drops in a slowdown, while the number of exits is inversely related to the state of the economy. The ups and downs in net business entries of these micro-businesses match GDP growth rates throughout the 1983~98 period. Net entries of "micro" businesses remained positive except at the height of the recession in 1990~91.

Source: Statistics Canada, Employment Dynamics, 1983-1998; and National Income and Expenditure Accounts

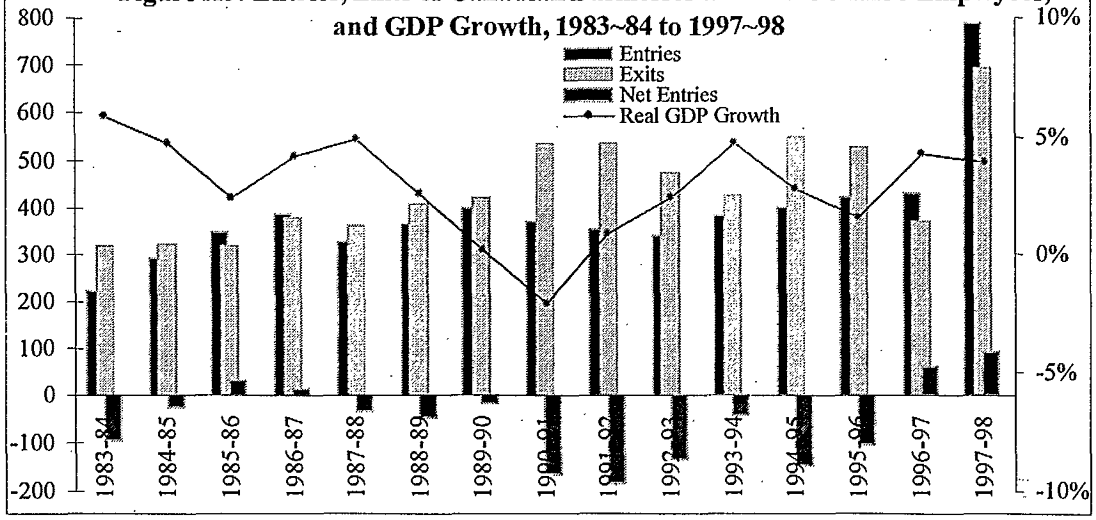
Entries and exits of larger sized firms generally follow the same pattern although a more severe impact of the early '90s recession is visible here: The net number of entries remained negative until well after the recession, in 1996~97. Figure A3 depicts the data for firms with more than 50 employees; note that entries and exits by firms of this size constitute, on average, only 0.3% of total entries and exits.

Only a small proportion of firms that "exit" the market place end up filing for bankruptcy. On average over the last 11 years, the number of business bankruptcies in Canada has been approximately 12,000 per year. They gradually increased from about 11,000 in 1990 to reach a peak at over 14,000 in 1996. Since then, business bankruptcies have been on the decline, to about 10,000 in 2000.

Survival Rates

How long a business stays in business is influenced by many different factors. Geographic location, industry, size, and age of a business are some of the "predictable" factors affecting how long a business stays active.

Figure A3: Entries, Exits of Canadian Businesses with more than50 Employees, and GDP Growth, 1983~84 to 1997~98



There are also "unforeseen" factors that may directly influence a business' survival such as changes in the market places. Examples of market influences include the number and size of competitors and new entrants, as well as general economic conditions.

Determining the probability of survival based on "predictable" factors is one way of answering the question of how long businesses survive. It is a more useful way than determining the average age of businesses because the majority of start-up firms do not operate for very long. The probability of survival is defined as the percentage of new firms that continue to operate when they reach a given age. Table A3 presents the survival rates from start-up, by region, for two size classes of businesses: "Micro" (fewer than 5 employees) and "Small" (5 or more, up to 99 employees). The table is based on firms that entered the market over the 1984-1995 period; the longest-observable age was therefore 11 years. The table indicates that, for example, 30% of micro-business entrants in the Atlantic provinces stayed in business for at least four years.

The percentage of new firms that remain in business after one, two or three years declines rapidly. That is, failure rates are high in the first few years after start-up. This is even more so for micro-businesses than it is for other small businesses. Beyond the first three years, survival rates of micro-businesses continue to be well below those of larger small firms. This can be explained in part by the likelihood that micro firms require less investment, which reduces the cost of failure; this could induce micro firms to take more risks which implies a higher probability of failure.

The survival rates of new micro firms are consistently lowest in the Atlantic region for businesses of any age and nearly the same holds for small firms. Small-firm survival rates are also low in the Prairie provinces. The survival rates for new firms in Quebec, Ontario and B.C. are very close together for all ages of firms in both size classes

Table A3: Survival Rates of Micro and Small Businesses, by Region, Size and Age of Business, in percent

	Micro Businesses (<5 employees)					Small Businesses (5~99 employees)				
AGE	ATLANTIC	QUE	ON	PRAIRIE	BC	ATLANTIC	QUE	ON	PRAIRIE	BC
1	61%	74%	78%	72%	76%	86%	90%	91%	89%	91%
2	45%	58%	62%	56%	59%	74%	78%	79%	75%	78%
3	37%	47%	50%	46%	48%	65%	68%	69%	65%	68%
4	30%	40%	42%	39%	40%	58%	61%	61%	57%	61%
5	26%	34%	36%	33%	34%	52%	54%	55%	51%	55%
6	22%	30%	31%	29%	30%	47%	49%	49%	46%	50%
7	19%	26%	27%	25%	26%	43%	44%	44%	42%	46%
8	17%	23%	24%	22%	23%	39%	41%	40%	39%	43%
9	15%	21%	21%	20%	21%	36%	38%	37%	36%	39%
10	13%	19%	19%	18%	19%	34%	35%	33%	33%	36%
11	12%	17%	17%	16%	17%	30%	32%	31%	30%	34%

Source: John Baldwin et al., Failure Rates for New Canadian Firms: New Perspectives on Entry and Exit (Statistics

Canada), 2000.

Payroll Employment

Establishments are consolidated into the enterprise of which they are a part. Statistics Canada defines a business enterprise as "a family of businesses under common ownership and control for which a set of consolidated financial statements is produced on an annual basis." Statistics Canada's Survey of Employment, Payrolls and Hours (SEPH) covers employer businesses in Canada and reports the number of employees at the enterprise level. Self-employed persons who are not on their own payroll are not included in these figures, nor are employees in the following industries: agriculture, fishing and trapping, private household services, religious organisations and military personnel of defence services.

Three groupings are available: Enterprises with fewer than 50 employees, 50 to 299, and 300 and more. For purposes of this section, they are called "small", "medium" and "large" respectively.

According to SEPH data, on average in 2000, almost 3.7 million people or 38% of the total private[3] labour force that was on a payroll worked for enterprises with fewer than 50 employees (Table A4). Another 1.7 million or 17% worked for medium sized firms. In total, therefore, small and medium sized firms employed 5.4 million or 55% of all employees in the private sector covered by the SEPH.

The distribution of employment by size of firm varies considerably for different industries (Table A4 and Figure A4). Construction has the largest share of small-firm employees with a striking 71%, followed by Logging and Forestry (50%), Wholesale and Retail Trade (45%), and Business and Personal Services (44%). Fully 26% of employment in Manufacturing is found in medium-sized firms and another 22% is in firms with fewer than 50 employees. The largest and the second largest industries in terms of the number of persons employed, Business and Personal Services (3.3 million) and Wholesale and Retail Trade (2.3 million), also have the largest number of employees among employers with 50 employees or less.

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[3] Private sector employment in the SEPG data was identified with the aid of Employment Dynamics and Small Business Profiles data for corresponding years and by projecting trends for more recent years. A technical note on the methodology employed is available. Private sector employment as defined in Table 4, in addition to the industries excluded by SEPH, excludes employment in Public Administration, postal services, public transit, educational services and institutional and other government-funded health care services, but includes employment in private sector health practices and beer and liquor stores.

Table A4: Number of Private Sector Employees by Industry and Size of Business Enterprise, 2000

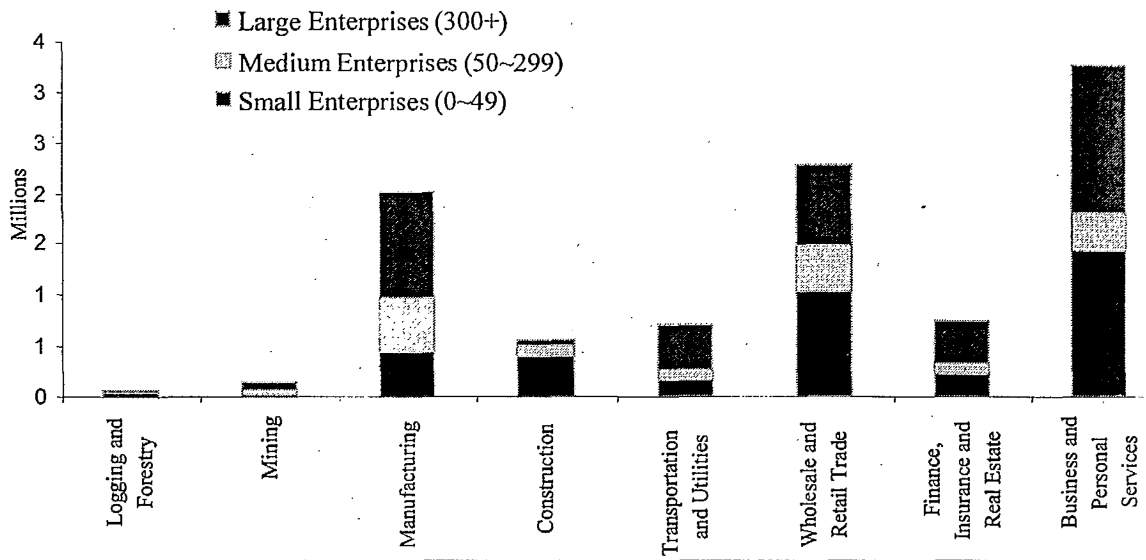
Industry	Total	Small Enterprises (up to 49 Employees)		Medium Enterprises (50 to 299 Employees)		Large Enterprises (300 Empl. or more)	
		No. of Employees	% of Total	No. of Employees	% of Total	No. of Employees	% of Total
Logging and Forestry	67,974	34,098	50%	8,969	13%	24,907	37%
Mining	140,856	28,126	20%	22,838	16%	89,892	64%
Manufacturing	2,005,696	446540	22%	528,566	26%	1,030,590	52%
Construction	557,746	396,184	71%	98,623	18%	62,939	11%
Transportation and Utilities*	682,402	156,154	23%	97,929	14%	428319	63%
Wholesale and Retail Trade	2,273,758	1,017,206	45%	460,457	20%	796,095	35%
Finance,Insurance and Real Estate	734,571	215,971	29%	98,667	14%	419,879	57%
Business and Personal Services*	3,266,766	1,435,379	44%	352,677	11%	1,478,710	45%
Industry Aggregate Total*	**9,754,455**	**3,735,187**	**38%**	**1,668,532**	**17%**	**4,350,736**	**45%**

Source: Statistics Canada, Survey of Employment, Payrolls and Hours (SEPH), special tabulation for Industry Canada; and calculations by Industry Canada. Industry data are classified in accordance with Statistics Canada's SIC 1980.

Note*: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data shown in this table exclude employment in Public Administration, postal services, public transit, educational services and institutional and other government-funded health care services, but include employment in private sector health practices and beer and liquor stores.

Source: Table A4

Figure A4: Number of Private Sector Employees by Industry and Size of Business Enterprise, 2000



Self-Employment

People who earn income directly from their own business, trade, or profession, rather than as a specified salary or wage from an employer are called self-employed. Statistics Canada defines self-employed persons as working owners of an unincorporated or incorporated business, persons who work for their own account but do not have a business, and persons working in a family business without pay.

In 2000, self-employed persons represented approximately 16% of the total labour force of the Canadian economy. The number of self-employed persons peaked in the first quarter of 2000 at 2.5 million and currently stands at about 2.3 million (Table A5). In recent years, about one third of self-employed workers have been female; the share of female self-employment has increased steadily from just over one-quarter in 1976.

Table A5: Total Number of Self-Employed Persons by Sex, yearly and quarterly, 1976~2001, in thousands

Year and Quarter	Total	Male	% of Total	Female	% of Total
1976	1,193.3	879.3	74%	313.9	26%
1977	1,226.2	892.8	73%	333.4	27%
1978	1,283.6	924.6	72%	359.1	28%
1979	1,336.2	951.3	71%	384.9	29%
1980	1,385.9	986.3	71%	399.6	29%
1981	1,442.5	1,031.6	72%	410.9	28%
1982	1,503.7	1,069.9	71%	433.8	29%
1983	1,551.3	1,099.6	71%	451.8	29%
1984	1,569.0	1,095.4	70%	473.6	30%
1985	1,685.1	1,162.8	69%	522.3	31%
1986	1,656.0	1,164.6	70%	491.5	30%
1987	1,695.6	1,183.2	70%	512.5	30%
1988	1,772.2	1,231.2	69%	541.0	31%
1989	1,803.4	1,242.5	69%	560.9	31%
1990	1,842.7	1,265.7	69%	577.0	31%
1991	1,887.4	1,303.9	69%	583.4	31%
1992	1,919.3	1,309.0	68%	610.3	32%
1993	2,027.1	1,372.3	68%	654.8	32%
1994	2,036.3	1,356.0	67%	680.2	33%
1995	2,097.8	1,391.6	66%	706.2	34%
1996	2,169.4	1,426.4	66%	743.0	34%
1997	2,353.7	1,524.5	65%	829.2	35%
1998	2,425.2	1,562.2	64%	863.0	36%
1999	2,462.9	1,600.5	65%	862.4	35%
2000	2,421.4	1,568.5	65%	852.8	35%
2000 Q1	2,508.8	1,623.6	65%	885.2	35%
Q2	2,418.0	1,561.4	65%	856.6	35%
Q3	2,393.9	1,541.8	64%	852.0	36%
Q4	2,365.5	1,547.9	65%	817.6	35%
2001 Q1	2,319.6	1,530.3	66%	789.3	34%
Q2	2,318.0	1,529.9	66%	788.1	34%

Source: Statistics Canada, Labour Force Survey

The designation "self-employed" is based on Statistics Canada's Labour Force Survey, which is a count of people. The counts of the number of businesses is often combined with that of the counts of self-employed because of the notion that self-employed persons operate their own businesses. While this is true, the two are distinct counts that should not be added together. When counting businesses, a business owned by a person who is identified as self-employed, and who is on the payroll of his or her own business, would be captured as an "employer business" in the appropriate size category. The business establishment of a self-employed owner who is not on his or her own payroll, and has nobody else on the payroll, will be counted among the 1 million "indeterminate" business establishments. On the other hand, when counting people, while many self-employed persons operate a business, many others do not, at least not as that term is defined by the Business Register, and thus would and should not be included in a count of businesses. It is not known what the degree of correspondence is between the 2 million "business establishments" in Canada and the 2.3 million persons in the active population who are identified as "self-employed."

All data in this section are derived from Statistics Canada's Labour Force Survey.

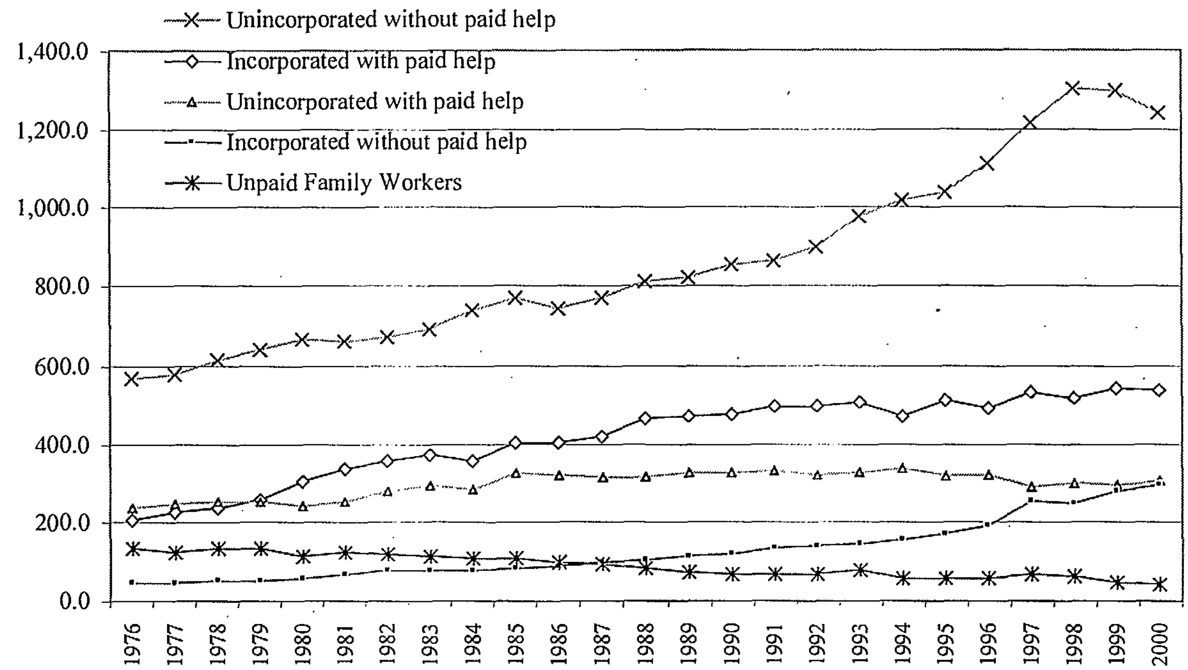
Table A6 shows a breakdown of the self-employed in five categories from 1976 to 2000. On average in 2000, of the 2.4 million self-employed persons, 64% had no paid help, 34% worked with paid help and 2% were unpaid family workers. Both the self-employed with paid help and those without paid help can be further divided according to whether their business was incorporated or not. Of those who worked without paid help, 81% or 1.2 million were unincorporated; this category accounted for about half the total number of self-employed in Canada.

Table A6: Average Number of Self-Employed Persons by Category, 1976-2000, and average annual Growth Rates

Year	Total	With Paid Help			Without Paid Help			Unpaid Family Workers
		Total	Incorporated	Unincorporated	Total	Incorporated	Unincorporated	
Average Number of Persons, in thousands								
1976	1,193.3	444.3	204.8	239.5	613.7	45.5	568.2	135.3
1977	1,226.2	475.8	227.4	248.4	624.0	45.9	578.1	126.5
1978	1,283.6	488.1	236.9	251.2	663.4	50.1	613.3	132.1
1979	1,336.2	511.0	257.9	253.1	691.4	49.1	642.3	133.9
1980	1,385.9	547.1	304.2	242.9	724.5	58.2	666.3	114.3
1981	1,442.5	591.5	337.7	253.8	725.1	64.8	660.3	126.1
1982	1,503.7	636.4	356.3	280.1	748.8	76.3	672.5	118.5
1983	1,551.3	667.4	370.9	296.5	769.6	78.9	690.7	114.4
1984	1,569.0	644.7	358.9	285.8	817.0	78.5	738.5	107.4
1985	1,685.1	725.0	401.2	323.8	853.7	81.9	771.8	106.4
1986	1,656.0	720.8	401.9	318.9	834.8	89.4	745.4	100.5
1987	1,695.6	732.0	416.9	315.1	868.2	98.6	769.6	95.4
1988	1,772.2	780.4	465.1	315.3	910.9	101.5	809.4	80.9
1989	1,803.4	795.5	469.7	325.8	934.5	112.0	822.5	73.5
1990	1,842.7	801.2	477.7	323.5	973.0	120.5	852.5	68.5
1991	1,887.4	828.6	497.5	331.1	993.7	132.6	861.1	65.0
1992	1,919.3	813.8	493.6	320.2	1,039.2	140.1	899.1	66.3
1993	2,027.1	832.9	508.4	324.5	1,119.1	144.0	975.1	75.0
1994	2,036.3	805.1	469.2	335.9	1,173.0	157.4	1,015.6	58.0
1995	2,097.8	829.8	510.5	319.3	1,210.1	170.5	1,039.6	57.9
1996	2,169.4	813.9	493.0	320.9	1,299.2	189.8	1,109.4	56.3
1997	2,353.7	819.3	530.9	288.4	1,469.2	253.6	1,215.6	65.2
1998	2,425.2	814.8	515.4	299.4	1,549.8	250.4	1,299.4	60.6
1999	2,462.9	838.7	541.9	296.8	1,577.6	279.6	1,298.0	46.5
2000	2,421.4	840.0	534.9	305.1	1,538.1	297.0	1,241.1	43.3
Average Annual Growth Rate, 1977-2000								
	3.1%	2.8%	4.3%	1.1%	4.1%	8.5%	3.5%	-4.8%

Source: Statistics Canada, Labour Force Survey

Figure A5: Self-Employed Persons by Category, 1976~2000, in thousands



Source: Table A6

As the relatively gentle slopes of the lines in Figure A5 indicate, the overall composition by different categories has not changed dramatically in the past 24 years. However, some shifts did occur. Over the last 24 years, total self-employment has increased at an annual average rate of 3%. Incorporated self-employed persons, both those who made use of paid help and those who did not, grew faster than average; those incorporated without paid help increased at more than 8% per year, and those with paid help grew at a more moderate 4% per year. On the other hand, the unpaid family workers category decreased rapidly at a rate of 5% per year. Unincorporated self-employed persons with paid help grew at a rate of 1%, far less than the average. The largest category, those unincorporated without paid help, made up just under half the total number of self-employed in 1976 and just over half in 2000; that is, their numbers grew at a slightly faster than the overall average of 3% per year.

In 2000, self-employment continued to show strength in categories such as those incorporated without paid help, but declined overall. The decrease was particularly strong among the self-employed who were unincorporated and had no paid help.

ANNEX B

Table B: Small Business Profitability in Manufacturing, Business Services, and Wholesale and Retail Trade, 1993, 1995 and 1997

INCORPORATED SMALL FIRMS

Manufacturing

	# of Firms in Sample	Revenue Quartiles 1/4	2/4	3/4	4/4
1993	4,010	$25 to $201	$201 to $442	$442 to $1055	$1,055 to $5,000
Avg. Revenue (Thousands)		$102.6	$315.2	$688.1	$2,171.1
Gross Margin (%)		28.8	29.0	27.0	21.8
Profit Margin (%)		-7.2	-0.7	0.4	2.2
Op. Profit / Equity (%)		-18.7	-3.6	1.5	10.3
Avg. # Emp.		1.2	3.8	9.2	21.4
1995	5,890	$25 to $179	$179 to $450	$450 to $1,030	$1,030 to $5,000
Avg. Revenue (Thousands)		$97.9	$289.9	$696.5	$2,168.7
Gross Margin (%)		29.8	28.3	25.4	22.3
Profit Margin (%)		-9.5	2.1	2.3	4.0
Op. Profit / Equity (%)		-76.9	9.3	12.9	20.2
Avg. # Emp.		0.8	2.6	6.5	18.2
1997	3,730	$30 to $194	$194 to $493	$493 to $1,331	$1,331 to $5,000
Avg. Revenue (Thousands)		$105.4	$324.9	$822.4	$2,592.6
Gross Margin (%)		32.0	31.5	24.2	22.9
Profit Margin (%)		-5.2	2.9	2.6	3.9
Op. Profit / Equity (%)		-33.0	14.9	11.4	20.9
Avg. # Emp.		1.1	3.5	8.7	21.2

Business Services

	# of Firms in Sample	Revenue Quartiles 1/4	2/4	3/4	4/4
1993	2,530	$25 to $61	$61 to 122	$122 to 261	$261 to $5,000
Avg. Revenue (Thousands)		$44.1	$87.3	$167.7	$788.4
Gross Margin (%)		49.2	47.3	53.7	48.1
Profit Margin (%)		-2.5	5.2	6.2	8.0
Op. Profit / Equity (%)		-28.5	20.5	16.0	30.6
Avg. # Emp.		0.6	1.3	2.3	10.7
1995	3,080	$25 to $64	$64 to 117	$117 to 260	$260 to $5,000
Avg. Revenue (Thousands)		$45.6	$88.4	$172.7	$756.2
Gross Margin (%)		54.2	45.5	56.3	49.1
Profit Margin (%)		8.8	7.2	13.5	8.2
Op. Profit / Equity (%)			18.1	30.2	31.0
Avg. # Emp.		0.4	1.1	1.6	9.1
1997	3,660	$30 to $74	$74 to 124	$124 to 281	$281 to $5,000
Avg. Revenue (Thousands)		$50.9	$96.2	$179.4	$905.6
Gross Margin (%)		50.7	50.6	53.2	43.4
Profit Margin (%)		5.7	12.1	14.8	5.9
Op. Profit / Equity (%)			30.6	33.0	22.2
Avg. # Emp.		0.6	1.2	2.0	11.5

UNINCORPORATED SMALL FIRMS

Manufacturing

	# of Firms in Sample	Revenue Quartiles 1/4	2/4	3/4	4/4
1993	5,450	$25 to $40	$40 to $63	$63 to $113	$113 to $5,000
Avg. Revenue (Thousands)		$31.9	$50.9	$83.5	$231.8
Gross Margin (%)		65.1	64.4	55.0	37.0
Profit Margin (%)		18.8	19.1	14.6	10.1
Avg. # Emp.		0.1	0.2	0.4	1.7
1995	6,770	$25 to $40	$40 to $65	$65 to $120	$120 to $5,000
Avg. Revenue (Thousands)		$31.6	$51.4	$86.7	$254.9
Gross Margin (%)		63.4	57.9	52.4	34.4
Profit Margin (%)		14.6	19.8	16.7	11.1
Avg. # Emp.		0.1	0.1	0.3	1.1
1997	5,930	$30 to $47	$47 to $73	$73 to $123	$123 to $5,000
Avg. Revenue (Thousands)		$38.2	$58.5	$93.4	$264.0
Gross Margin (%)		61.4	54.1	49.4	37.4
Profit Margin (%)		21.7	20.2	18.6	12.8
Avg. # Emp.		0.1	0.2	0.4	1.5

Business Services

	# of Firms in Sample	Revenue Quartiles 1/4	2/4	3/4	4/4
1993	9,710	$25 to $32	$32 to $46	$46 to $72	$72 to $5,000
Avg. Revenue (Thousands)		$28.4	$38.5	$57.3	$172.5
Gross Margin (%)		94.3	93.2	83.1	68.0
Profit Margin (%)		57.7	56.6	49.6	33.9
Avg. # Emp.		0.0	0.0	0.2	1.2
1995	14,420	$25 to $30	$30 to $43	$43 to $68	$68 to $5,000
Avg. Revenue (Thousands)		$28.2	$36.0	$54.0	$137.0
Gross Margin (%)		95.5	92.2	90.9	75.1
Profit Margin (%)		56.0	56.1	53.5	41.4
Avg. # Emp.		0.0	0.0	0.1	0.6
1997	19,350	$30 to $39	$39 to $57	$57 to $87	$87 to $5000
Avg. Revenue (Thousands)		$34.2	$47.0	$71.3	$177.9
Gross Margin (%)		88.7	86.1	83.3	62.4
Profit Margin (%)		59.4	59.4	58.5	37.1
Avg. # Emp.		0.0	0.1	0.1	0.8

Table B continued...

INCORPORATED SMALL FIRMS

Wholesale Trade

	# of Firms in Sample	Revenue Quartiles 1/4	2/4	3/4	4/4
1993	6,940	$25 to $162	$162 to $430	$430 to $1,017	$1,017 to $5,000
Avg. Revenue (Thousands)		$89.6	$277.0	$666.9	$2,026.1
Gross Margin (%)		31.8	24.5	19.1	15.4
Profit Margin (%)		-3.5	0.9	-0.4	1.7
Op. Profit / Equity (%)		-14.5	4.6	-2.4	11.7
Avg. # Emp.		0.8	2.0	4.2	10.0
1995	6,410	$25 to $167	$167 to $451	$451 to $1,082	$1,082 to $5,000
Avg. Revenue (Thousands)		$88.5	$291.3	$708.6	$2,072.2
Gross Margin (%)		30.0	23.4	20.9	15.2
Profit Margin (%)		-6.0	0.9	2.5	2.1
Op. Profit / Equity (%)		-43.8	4.7	17.7	19.9
Avg. # Emp.		0.6	1.6	3.3	7.6
1997	4,360	$30 to $148	$148 to $474	$474 to $1,291	$1,291 to $5,000
Avg. Revenue (Thousands)		$80.9	$294.8	$816.2	$2,500.2
Gross Margin (%)		36.6	26.1	20.0	15.0
Profit Margin (%)		-3.7	0.0	2.8	2.1
Op. Profit / Equity (%)		-13.0	0.1	22.9	15.4
Avg. # Emp.		0.7	1.9	4.8	11.1

Retail Trade

	# of Firms in Sample	Revenue Quartiles 1/4	2/4	3/4	4/4
1993	5,230	$25 to $157	$157 to $310	$310 to $675	$675 to $5,000
Avg. Revenue (Thousands)		$93.2	$230.3	$473.0	$1,250.9
Gross Margin (%)		30.1	29.6	21.4	17.6
Profit Margin (%)		-10.0	-0.6	0.3	1.2
Op. Profit / Equity (%)			-6.7	2.1	11.3
Avg. # Emp.		1.2	2.7	4.8	10.6
1995	6,230	$25 to $164	$164 to $339	$339 to $675	$675 to $5,000
Avg. Revenue (Thousands)		$94.1	$239.5	$495.1	$1,231.1
Gross Margin (%)		36.7	34.5	24.4	17.4
Profit Margin (%)		-6.7	-0.4	2.0	1.4
Op. Profit / Equity (%)			-2.7	14.7	12.4
Avg. # Emp.		1.0	2.4	4.7	9.9
1997	5,700	$30 to $175	$175 to $382	$382 to $878	$878 to $5,000
Avg. Revenue (Thousands)		$99.9	$268.3	$582.5	$1,849.9
Gross Margin (%)		39.7	28.7	22.6	15.5
Profit Margin (%)		-4.6	-0.6	1.1	1.5
Op. Profit / Equity (%)			-7.4	9.3	13.3
Avg. # Emp.		1.1	3.0	5.6	13.2

UNINCORPORATED SMALL FIRMS

Wholesale Trade

	# of Firms in Sample	Revenue Quartiles 1/4	2/4	3/4	4/4
1993	7,260	$25 to $44	$44 to $84	$84 to $185	$185 to $5,000
Avg. Revenue (Thousands)		$34.0	$61.9	$124.5	$454.1
Gross Margin (%)		57.5	50.7	39.0	17.7
Profit Margin (%)		15.9	17.6	12.9	5.1
Avg. # Emp.		0.0	0.1	0.2	0.9
1995	8,060	$25 to $43	$43 to $87	$87 to $193	$193 to $5,000
Avg. Revenue (Thousands)		$32.4	$61.7	$133.0	$479.3
Gross Margin (%)		60.8	51.4	40.3	17.6
Profit Margin (%)		17.3	18.6	14.2	5.2
Avg. # Emp.		0.0	0.1	0.2	0.7
1997	6,640	$30 to $59	$59 to $99	$99 to $217	$217 to $5,000
Avg. Revenue (Thousands)		$42.5	$76.2	$145.0	$508.5
Gross Margin (%)		53.7	52.6	38.3	17.6
Profit Margin (%)		18.6	23.2	15.0	6.0
Avg. # Emp.		0.1	0.1	0.4	1.0

Retail Trade

	# of Firms in Sample	Revenue Quartiles 1/4	2/4	3/4	4/4
1993	33,560	$25 to $47	$47 to $95	$95 to $208	$208 to $5,000
Avg. Revenue (Thousands)		$34.6	$68.1	$143.8	$479.4
Gross Margin (%)		56.8	47.1	35.0	17.7
Profit Margin (%)		6.6	8.5	6.5	4.0
Avg. # Emp.		0.1	0.3	0.7	2.1
1995	32,900	$25 to $47	$47 to $93	$93 to $197	$197 to $5,000
Avg. Revenue (Thousands)		$35.1	$67.9	$137.2	$475.3
Gross Margin (%)		53.9	48.5	38.3	18.3
Profit Margin (%)		5.4	8.8	6.6	4.1
Avg. # Emp.		0.1	0.3	0.6	2.0
1997	25,140	$30 to $59	$59 to $99	$99 to $206	$206 to $5,000
Avg. Revenue (Thousands)		$42.6	$76.9	$142.6	$491.1
Gross Margin (%)		47.5	38.8	33.1	17.1
Profit Margin (%)		10.6	8.1	8.3	4.6
Avg. # Emp.		0.1	0.3	0.7	2.2

Source: Statistics Canada, Small Business Profiles 1993, 1995 & 1997.

ANNEX C

BUSINESS ESTABLISHMENTS AND EMPLOYER BUSINESSES

Table C1: Business Establishments by Size of Employment and Industry, June 2001

Industry	Grand Total	Indeterminate*	Employer Businesses								
			Total	Number of Employees							
				1~4	5~9	10~19	20~49	50~99	100~199	200~499	500+
Goods-Producing Sector	**548,436**	**300,937**	**247,499**	**155,233**	**34,952**	**23,790**	**18,538**	**8,022**	**4,248**	**2,100**	**616**
Forestry	195,305	131,800	63,505	49,930	6,998	3,871	1,925	529	188	59	5
Mining and Oil and Gas Extraction	14,669	6,753	7,916	4,673	998	852	708	325	185	124	51
Utilities	1,890	692	1,198	536	222	134	131	64	39	37	35
Construction	232,361	123,650	108,711	71,035	16,791	10,348	7,064	2,285	844	289	55
Manufacturing	104,211	38,042	66,169	29,059	9,943	8,585	8,710	4,819	2,992	1,591	470
Service-Producing Sector	**1,568,166**	**775,365**	**792,801**	**452,562**	**139,469**	**94,964**	**66,331**	**22,778**	**10,195**	**4,359**	**2,143**
Wholesale Trade	119,960	53,639	66,321	32,654	12,654	9,730	7,566	2,359	989	309	60
Retail Trade	214,533	84,500	130,033	61,285	30,367	20,095	11,383	4,005	2,095	666	137
Transportation and Warehousing	101,968	55,824	46,144	31,459	5,689	3,920	3,017	1,168	531	231	129
Information and Cultural Industries	27,652	13,463	14,189	7,151	2,178	1,851	1,686	739	335	170	79
Finance and Insurance	104,855	69,578	35,277	18,108	5,760	4,588	4,766	1,132	532	236	155
Real Estate, Rental and Leasing	154,738	115,478	39,260	25,743	5,845	3,692	2,643	881	301	117	38
Professional, Scientific and Technical Services	255,658	145,698	109,960	76,968	14,422	8,955	6,173	2,112	894	328	108
Management of Companies and Enterprises	72,809	55,541	17,268	9,962	2,720	1,937	1,609	675	259	66	40
Admin., Support, Waste Mgmt and Remed. Services	93,954	48,369	45,585	27,431	7,334	4,882	3,592	1,277	630	331	108
Educational Services	17,654	6,699	10,955	5,896	1,660	1,168	964	369	241	222	435
Health Care and Social Assistance	89,675	9,945	79,730	47,209	14,914	8,849	4,610	1,799	1,174	763	412
Arts, Entertainment and Recreation	36,640	18,781	17,859	10,026	3,090	2,150	1,609	557	254	127	46
Accommodation and Food Services	110,963	35,405	75,558	28,986	14,973	14,019	11,833	4,179	1,181	321	66
Other Services	159,407	62,394	97,013	67,350	16,154	8,136	3,843	958	396	141	35
Public Administration	7,700	51	7,649	2,334	1,709	992	1,037	568	383	331	295
Total All Industries	**2,116,602**	**1,076,302**	**1,040,300**	**607,795**	**174,421**	**118,754**	**84,869**	**30,800**	**14,443**	**6,459**	**2,759**

Source: Statistics Canada, Business Register, June 2001

Note*: The indeterminate category consists of incorporated or unincorporated businesses without employees. The Business Register classifies a business as "indeterminate" when it cannot determine through payroll data that the firm has paid employees. The firm may well provide work under contract.

Note': By conventional Statistics Canada definition, the goods-producing sector consists of 11 NAICS codes 11 to 31~33, while NAICS codes 41 to 91 define the service-producing sector.

Table C2: Number of Employer Businesses by Provinces and Firm Sizes, June 1995 and June 2001

June 1995

# of Employees	Canada	NFLD	PEI	NS	NB	QUE	ON	MAN	SASK	AB	BC	YK	NWT
1-4	571,849	11,924	4,322	18,774	16,692	147,409	174,395	20,110	25,076	64,663	86,737	848	899
5-9	166,997	2,988	1,208	5,010	4,456	38,647	54,342	6,128	7,283	19,809	26,241	360	525
10-19	109,574	1,696	643	3,192	2,849	24,081	37,173	4,255	4,269	13,130	17,767	208	311
20-49	70,862	915	362	2,195	1,788	16,022	25,382	2,779	2,245	8,079	10,745	128	222
50-99	21,924	276	90	624	484	5,190	8,550	860	584	2,325	2,850	29	62
100-199	10,178	128	51	279	248	2,214	4,188	380	324	1,032	1,305	11	18
200-499	4,683	79	18	141	117	1,117	1,858	194	134	475	526	8	16
500 +	2,322	45	10	72	46	587	945	97	61	219	237	1	2
Total	958,389	18,051	6,704	30,287	26,680	235,267	306,833	34,803	39,976	109,732	146,408	1,593	2,055

June 2001

# of Employees	Canada	NFLD	PEI	NS	NB	QUE	ON	MAN	SASK	AB	BC	YK	NWT
1 - 4	606,836	11,068	4,234	18,284	16,565	155,689	186,158	19,929	25,046	77,823	91,125	915	959
5 - 9	173,905	2,959	1,216	5,587	4,853	36,759	58,946	6,098	7,137	22,675	27,345	330	516
10 - 19	118,339	1,718	820	3,788	3,107	23,022	42,560	4,560	4,564	15,483	18,497	220	415
20-49	84,568	1,164	531	2,581	2,141	16,292	32,531	3,271	2,714	10,751	12,445	147	301
50-99	30,695	397	147	826	694	6,059	12,406	1,237	846	3,822	4,215	46	105
100-199	14,393	182	75	450	326	2,832	6,100	485	356	1,715	1,847	25	50
200-499	6,435	78	33	160	139	1,345	2,714	263	195	699	794	15	24
500 +	2,756	63	10	81	56	646	1,117	116	63	279	323	2	3
Total	1,037,927	17,629	7,066	31,757	27,881	242,644	342,532	35,959	40,921	133,247	156,591	1,700	2,373

Change, 1995~2001

# of	Canada		NFLD		PEI		NS		NB		QUE		ON		MAN		SASK		AB		BC		YK		NWT	
Employees	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
1- 4	35,946	6%	-856	-7%	-88	-2%	-490	-3%	-127	-1%	8,280	6%	11,763	7%	-181	-1%	-30	0%	13,160	20%	4,388	5%	67	8%	60	7%
5 - 9	7,424	4%	-29	-1%	8	1%	577	12%	397	9%	-1,888	-5%	4,604	8%	-30	0%	-146	-2%	2,866	14%	1,104	4%	-30	-8%	-9	-2%
10 - 19	9,180	8%	22	1%	177	28%	596	19%	258	9%	-1,059	-4%	5,387	14%	305	7%	295	7%	2,353	18%	730	4%	12	6%	104	33%
20-49	14,007	20%	249	27%	169	47%	386	18%	353	20%	270	2%	7,149	28%	492	18%	469	21%	2,672	33%	1,700	16%	19	15%	79	36%
50-99	8,876	40%	121	44%	57	63%	202	32%	210	43%	869	17%	3,856	45%	377	44%	262	45%	1,497	64%	1,365	48%	17	59%	43	69%
100-199	4,265	42%	54	42%	24	47%	171	61%	78	31%	618	28%	1,912	46%	105	28%	32	10%	683	66%	542	42%	14	127%	32	178%
200-499	1,776	38%	-1	-1%	15	83%	19	13%	22	19%	228	20%	856	46%	69	36%	61	46%	224	47%	268	51%	7	88%	8	50%
500 +	437	19%	18	40%	0	0%	9	13%	10	22%	59	10%	172	18%	19	20%	2	3%	60	27%	86	36%	1	100%	1	50%
Total	81,911	9%	-422	-2%	362	5%	1,470	5%	1,201	5%	7,377	3%	35,699	12%	1,156	3%	945	2%	23,515	21%	10,183	7%	107	7%	318	15%

Source: Statistics Canada, Business Register, June 1995 and June 2001

Table C3: Number of Employer Businesses by Industry and Firm Sizes, June 1995 and June 2001

June 1995

# of Employees	Canada Total	Agriculture	Fish/Trap	Logging	Mining	Manuf.	Const.	Transport & Util.	Wholesale/ Retail	FIRE	Bus. & Pers. Services
1 - 4	571,849	43,137	4,646	6,952	3,756	25,587	75,164	29,542	119,865	44,162	213,483
5 - 9	166,997	5,606	548	1,647	1,094	10,587	16,761	5,920	50,359	10,809	60,760
10 - 19	109,574	2,464	319	1,110	778	9,370	9,880	3,914	33,439	6,663	39,844
20 - 49	70,862	1,059	182	644	662	9,493	6,091	3,233	16,966	4,543	26,651
50 - 99	21,924	223	58	244	266	4,389	1,549	1,139	4,085	1,501	7,844
100 - 199	10,178	82	19	90	125	2,322	467	544	1,980	563	3,531
200 - 499	4,683	32	5	29	108	1,216	168	332	578	220	1,694
500 +	2,322	6	-	13	38	425	29	208	156	147	1,035
Total	958,389	52,609	5,777	10,729	6,827	63,389	110,109	44,832	227,428	68,608	354,842

June 2001

# of Employees	Canada Total	Agriculture	Fish/Trap	Logging	Mining	Manuf.	Const.	Transport & Util.	Wholesale/ Retail	FIRE	Bus. & Pers. Services
1-4	607,795	40,120	4,828	7,321	4,671	30,341	75,187	34,951	114,956	48,622	244,465
5-9	174,421	5,521	820	1,405	998	10,348	17,448	6,475	49,491	12,425	67,782
10-19	118,754	2,656	562	1,007	853	8,854	10,693	4,495	32,988	9,127	46,528
20-49	84,869	1,073	268	696	708	9,000	7,223	3,640	20,150	8,310	32,766
50-99	30,800	274	66	217	326	4,960	2,312	1,424	6,522	2,477	11,654
100-199	14,443	94	22	84	185	3,074	844	675	3,129	1,000	4,958
200-499	6,459	37	2	33	124	1,626	287	339	983	382	2,320
500 +	2,759	6	-	3	51	490	55	208	199	222	1,232
Total	1,040,300	49,781	6,568	10,766	7,916	68,693	114,049	52,207	228,418	82,565	411,705

Change, 1995~2001

# of Employees	Canada Total		Agriculture		Fish/Trap		Logging		Mining		Manuf.		Const.		Transport & Util.		Wholesale/ Retail		FIRE		Bus. & Pers. Services	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
1 - 4	35,946	6%	-3,017	-7%	182	4%	369	5%	915	24%	4,754	19%	23	0%	5,409	18%	-4,909	-4%	4,460	10%	30,982	15%
5 - 9	7,424	4%	-85	-2%	272	50%	-242	-15%	-96	-9%	-239	-2%	687	4%	555	9%	-868	-2%	1,616	15%	7,022	12%
10 - 19	9,180	8%	192	8%	243	76%	-103	-9%	75	10%	-516	-6%	813	8%	581	15%	-451	-1%	2,464	37%	6,684	17%
20 - 49	14,007	20%	14	1%	86	47%	52	8%	46	7%	-493	-5%	1,132	19%	407	13%	3,184	19%	3,767	83%	6,115	23%
50 - 99	8,876	40%	51	23%	8	14%	-27	-11%	60	23%	571	13%	763	49%	285	25%	2,437	60%	976	65%	3,810	49%
100 - 199	4,265	42%	12	15%	3	16%	-6	-7%	60	48%	752	32%	377	81%	131	24%	1,149	58%	437	78%	1,427	40%
200 - 499	1,776	38%	5	16%	-3	-60%	4	14%	16	15%	410	34%	119	71%	7	2%	405	70%	162	74%	626	37%
500 +	437	19%	0	0%	0	0%	-10	-77%	13	34%	65	15%	26	90%	0	0%	43	28%	75	51%	197	19%
Total	81,911	9%	-2,828	-5%	791	14%	37	0%	1,089	16%	5,304	8%	3,940	4%	7,375	16%	990	0%	13,957	20%	56,863	16%

Source: Statistics Canada, Business Register, June 1995 and June 2001