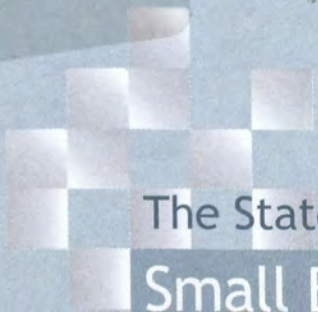


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The State of
Small Business
and Entrepreneurship
in Northern Ontario

November 1998



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HIGHLIGHTS

Businesses and Their Employees

- There were 24,708 businesses in Northern Ontario in 1995. Businesses with fewer than 20 employees made up 88.3% of the total; those with 20 to 49 employees 7.6%; and those with 50 to 200+, 4.2%. This breakdown closely parallels national averages, and differs only slightly from Southern Ontario, which has a lower percentage of businesses with fewer than 20 employees (86.5%) and a higher percentage of businesses in the 50 to 200+ employee category (5.1%).
- From 1991 to 1995, the number of businesses in Northern Ontario increased by 8.6%, compared to 11.6% for Canada as a whole, 12.2% for the Atlantic provinces and 7.8% for Southern Ontario. The largest increase occurred in the category of businesses with 20 to 49 employees, which grew by 23.9% over the period.
- The highest number of businesses are found in retail trade (19.4%), construction (11.8%), and the accommodation, food and beverage sectors (11.2%).
- From 1991 to 1995, the number of mining sector businesses in Northern Ontario decreased by 11.8%, although there was a 10.9% increase for Canada as a whole during the same period. For the same period, Canada outpaced Northern Ontario in the growth of businesses in the transportation sector (19% vs. 8%) while Northern Ontario outpaced Canada in the communications sector, particularly in Northeastern Ontario (38% NE. Ont., 30% N. Ont. vs. 20% for Canada).
- Seventy percent of employment earnings are generated by larger businesses, which employ 54% of Northern Ontario workers.

- Employees of small firms in Northern Ontario (1 to 19 employees) earned on average \$14,275 in 1993 vs. \$19,789 for employees in firms with 20 to 99 employees and \$32,352 for employees in firms with 99+ employees.
- Changes in employment percentages from 1989 to 1993 were most pronounced in the funded (government, health, social service and education) sector, which increased from 26.9% to 30.2% of employment, and the mining sector, which decreased to 3.5% from 8.7% in 1989.

Financing of Small Businesses

- Chartered banks have \$30 billion in loans outstanding to Canadian small businesses. This represents 90% of the lending activity for small and medium-sized enterprises (SMEs). More than 80% of the chartered banks' business loan customers are small businesses.
- Northern Ontario small businesses rely on personal investment and family members for 60% of initial funding.
- Small business owners are for the most part satisfied with their financial institution; only 18% of those surveyed were disappointed.
- Rejection rates for loans are lower for Northern Ontario businesses (11.5%) than for two national samples (13.8% Canadian Federation of Independent Business and 15% Thompson, Lightstone & Co.).
- The greatest sources of dissatisfaction with financing are the lack of availability of funds and collateral requirements.
- Thirty-eight percent of the sampled firms have participated in a government business assistance program, but only 9.6% of firms were 'very satisfied' that the programs offered met the needs of their business.
- The tax burden and paperwork were cited by more than 25% of the survey respondents as barriers to success.
- There is a lack of awareness of government assistance programs among small business owners.

Demographic Subgroups

- Changes in employment levels from 1989 to 1993 resulted in a decrease in employment of 11.6% for men and 2.7% for women.
- Female and male business owners experienced similar outcomes on their most recent loan requests.
- Women experience gender related problems, including the burden of child care and establishing credibility in the business environment.
- Francophones seem to use a higher percentage of personal financing than non-Francophones at business start-up.
- Francophone respondents use the English language to communicate with customers 65% of the time and French for the balance.
- Francophones use English predominantly in advertising (88%) and for company identity materials (94%).
- Aboriginal business owners have lower levels of formal education than non-Aboriginal business owners.
- Obtaining bank financing is difficult for Aboriginal business owners because of collateral problems.
- Aboriginal business people do not have easy access to business markets, information or business networks.
- The availability of skilled workers is a barrier to Aboriginal business.

Growth Indicators and Opportunities

A number of factors are identified as important to small business development. They include:

- *Exporting.* Northern Ontario small business firms received 3% of their total revenue from export sources outside the province, compared to growing Ontario firms, which received 45% of revenues from similar sources.

- *Market research and planning.* Northern Ontario small business firms use market research less than 40% of the time. More than 55% of the businesses sampled do not have formal business plans.
- *Training.* Thirty-two percent of Northern Ontario small businesses spend no money on training employees, while a further third spend less than 3% of their budget for this purpose. In total, 85% spend less than 10% of their budget on training.
- *Networking.* Sixty-six percent of the firms studied are engaged in some type of networking activity.
- *Technology.* Fifty-eight percent of firms have computerized their administrative tasks; 28% are connected to the Internet, while 11% have web pages.
- *Expectations.* The firms surveyed are optimistic in regard to the future; 82% expect sales to increase over the next two years, with average growth of 25% for the period.



INTRODUCTION

This study was conceived to respond to the need for a bench mark report on the state of the economy in Northern Ontario. A bench mark is needed to support the development of economic development and diversification strategies, particularly in light of the decline in employment in the resource-based sectors of Northern Ontario, which has contributed to a significant decline in employment earnings within the region. To offset this negative impact on the economy, Northern Ontario stakeholders are looking to entrepreneurship and small business development as a means of rejuvenating the regional economy.

Interest in entrepreneurship and small business development in Canada has been widely reported. Small companies are key players in the development of an economy (Birch 1987) and specifically in Canada's economy (Peterson 1977). Statistics Canada reports indicate that small companies, many of them entrepreneurial, have been net job creators in the economy over the past ten years, while large companies continued to shed employment. From 1983 to 1990, small growing companies created 1.13 million jobs in the Canadian economy. Small companies account for more than half of private sector jobs and the small business sector produces approximately 40% of Canada's Gross Domestic Product (Canada 1994).

Northern Ontario Characteristics

There is a stark contrast in geographic size, population, employment and economic output between Northern and Southern Ontario. Northern Ontario is a region vast in geography but limited economically. It makes up 88% of the land mass of Ontario, yet is home to only 8% of the population. Approximately 381,230 people are employed in the North, just 7% of the Ontario total. In many ways, because of its size, population density, economic sector output and the language of the population, the region is more comparable to the Atlantic provinces than to Southern Ontario.

In the past, work on the state of the provincial economy has tended to examine the province as a whole, without differentiating between Southern and Northern Ontario. Projects such as the *State of Small Business* series produced by the Provincial Ministry of Industry, Trade and Technology, for example, have employed this approach. This annual snapshot of small business performance examined various characteristics of the small business sector, including (in 1986) employment creation by the 284,000 small firms in the province. Even today, Northern Ontario has fewer than 10% of that number of small firms. The population density and demographics of the South are overwhelmingly different from the North. Therefore, any prescriptive results from such studies are largely irrelevant to Northern Ontario.

Northern Ontario is also becoming a different entity over time than it has been historically. Initially, employment was mostly based in the mineral extraction and forestry sectors, but this has changed with the development of community and regional infrastructure. Although mineral extraction, forestry and related processing will continue to be the economic foundation of the North, sustaining higher-paying jobs, these sectors are no longer the largest source of employment in the economy.

Major Economic Sectors

The mining and forestry sectors account for 4.4% of employment and 7.3% of employment earnings in Northern Ontario, three times the national and ten times the Southern Ontario proportions. When related manufacturing concerns in the wood and mining-based sectors are added, 54,000 or 14.1% of total employment falls within these sectors. Earnings in these sectors account for 23.4% of total employment earnings in Northern Ontario. These sectors, however, have been more significant contributors to employment and earnings in the past, since advances in technology have had serious repercussions for employment in mining and forestry operations.

Today, the funded sector, which includes education, health and social services, is the largest single sector in the North, employing approximately 30% of the working population. This is the result of a

conscious provincial and federal government strategy of infrastructure development in the larger centres of the 'near' North. The trade and manufacturing sectors are the next largest, at 16% and 14% respectively. Transportation, accommodation and other service sectors account for between five and ten percent each.

Growing sectors (based on data up to 1993) include communications and utilities, agriculture and fur harvesting, and the funded sector. Large declines were recorded in the mining and forestry sectors. Investigation of the basis for changes in employment levels, both growth and decline, will provide valuable information for the facilitation of future economic development.

Markets and Economic Development

Northern Ontario has a small population base; consequently, its market for products and services is limited. Mineral and forestry products are primarily exported, while other secondary manufacturing and service sectors cater to the local or regional market. This local or regional market is limiting to the extent that any development in the economy will be based on exports or the support of exporting and tourism. These are activities which broaden the market base. Businesses developing in these areas typically start off as small businesses, then, depending on management and identified market characteristics, grow to medium size, remain small, or disappear altogether. It is the growth of small businesses to medium size and beyond that is of interest to stakeholders in Northern Ontario economic development.

Issues Facing Small Business

Small businesses are identified as the economic growth engine of the future, yet they face an increasingly complex market as a result of technological and competitive developments. Small businesses often lack technological and management skills and need to find support in these areas in order to grow. Identifying the types of training and information needed to support small businesses is important to their continuous development. One of the objectives of this report is to determine whether Northern Ontario businesses are progressing

appropriately given the challenges they face. Specific areas vital to the growth and development of small business are: the collection of market information, identifying appropriate markets, improving technological and management skills, networking, and employee motivation and training.

Access to Capital

Having access to the capital required for development is important to all small businesses in Canada. This is particularly important in Northern Ontario when businesses try to gain access to money for expansion or entrepreneurs try to start up new businesses. The role of financing is key to the continued development of new businesses and the growth of small businesses into medium size and beyond. This report examines the relationship between financial intermediaries and small businesses of Northern Ontario.

Policy Making

A number of economic development and training programs have been put in place for the North. However, previous studies, although limited in scope, have shown that entrepreneurs are often not aware of these programs or are not apt to use them in spite of some awareness. Policy makers need better indicators of the use of various programs and their effectiveness or utility to entrepreneurs in order to improve participation.

The Report

The research for the report is drawn from a number of primary and secondary data sources. Chapters 1 and 2, which provide the economic footing for the report, are largely based on Statistics Canada data and the Small Area Business and Labour Database (SABAL), Revenue Canada Business Administrative Data. These chapters describe changes in the industrial structure of the labour force in Northern Ontario, as well as the state of northern business.

Chapters 3, 4 and 5 are largely based upon primary data collected from 229 businesses in Northern Ontario in May 1997. This study is described in Appendix A of the report. Several other secondary sources were used to support the chapter data. These are listed in the chapter text and references.

Chapter 6 is a summary chapter, providing framework and policy suggestions for the consideration of government and private sector partners.

CHAPTER 1

Industrial Structure of the Northern Ontario Labour Force

The rate and type of employment for individuals has a profound effect on the economy of a region. Regions with stable, high-wage employment tend to prosper economically, while those with lower wage or unstable employment have difficulty in sustaining growth and development. In Northern Ontario, the latter condition tends to prevail.

Jankowski and Moazzami (1996) describe a significant shift in the industrial structure of Northern Ontario's labour force from goods-producing to service industries. Using census data, the authors show that between 1981 and 1991, there were major job losses within the resource-based and manufacturing industries. Some of these losses were offset by growth in the public and market services sectors. This report examines whether the declines in the resource-based and manufacturing sectors continued in the region after 1991.

In this chapter, the Small Area File provided in the Small Area Business and Labour (SABAL) database is used to describe the industrial structure of the labour force in Northern Ontario. The first section assesses whether the decline in the resource-based and manufacturing sectors of the last decade continued after 1991. The second section examines the effect of the last recession on employment levels of men and women in Northern Ontario. Finally, the importance of the resource-based and manufacturing sectors in the regional economy are examined in the third section.

Changing Industrial Structure of the Labour Force

Employment levels within the resource-based and manufacturing sectors in Northern Ontario did continue to decline after 1991, until at least 1993, the latest year for which comprehensive data was available. Changes in the industrial structure of the labour force in Northeastern and Northwestern Ontario are examined in the following sections.

Northeastern Ontario

The employment distributions in Northeastern Ontario for 1989 and 1993 are shown in Chart 1.1. Northeastern Ontario includes the census districts of Algoma, Cochrane, Manitoulin, Nipissing, Parry Sound, Sudbury and Timiskaming. Employment in Northeastern Ontario, at 260,990, represents approximately two-thirds (68%) of the total employment in Northern Ontario of 381,230 in 1995. In 1993, the most

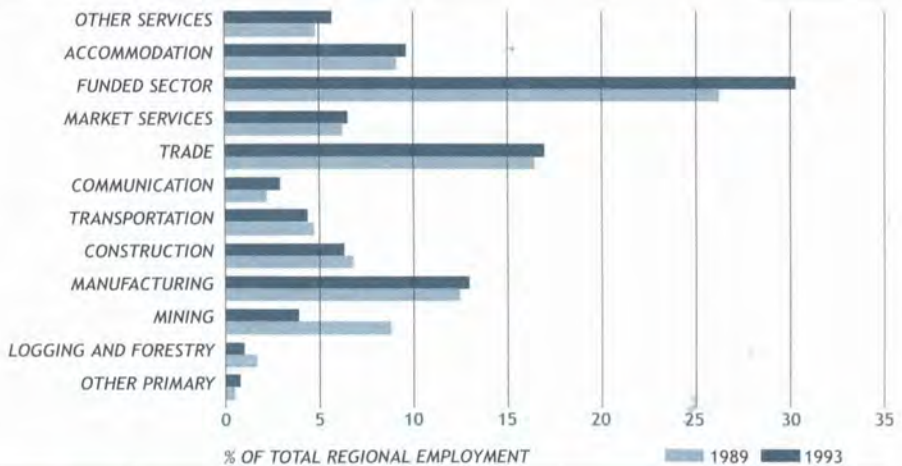


Chart 1.1 Employment Distribution by Industry, Northeastern Ontario, 1989 and 1993

Source: Small Area Business and Labour Database (SABAL) 1996 - Revenue Canada Business Administrative Data.

important sector in the region in terms of employment was the funded sector, responsible for 30.2% of total regional employment. This sector is largely government-sponsored and consists of government services, educational services, and the health and social service sectors. Other important sectors were trade (17.1%), manufacturing (13.2%), and the accommodation, food and beverage (9.1%) sectors. The mining sector was responsible for only 3.5% of total employment in the region, while the logging and forestry sector provided less than 1% of employment.

The most significant differences in the percentage distributions of 1989 and 1993 are the increase in the relative share of total employment of the

funded sector (26.9% vs. 30.2%), and the decrease in the share of the mining sector (8.7% to 3.5%).

Chart 1.2 shows the percentage change in the level of employment in each of the industrial sectors between 1989 and 1993. Significant positive changes in employment levels were recorded in the other primary sector, which includes agriculture and fur harvesting (21.8%); communication (19.3%); and the funded (5.9%) sector. Resource-based sectors experienced significant decreases in employment levels: 42.9% in the forestry and logging industries, and 62.0% in the mining sector. At the same time, the manufacturing sector experienced a slight decrease of only 3.3%. Decreases were also recorded in most of the remaining sectors.

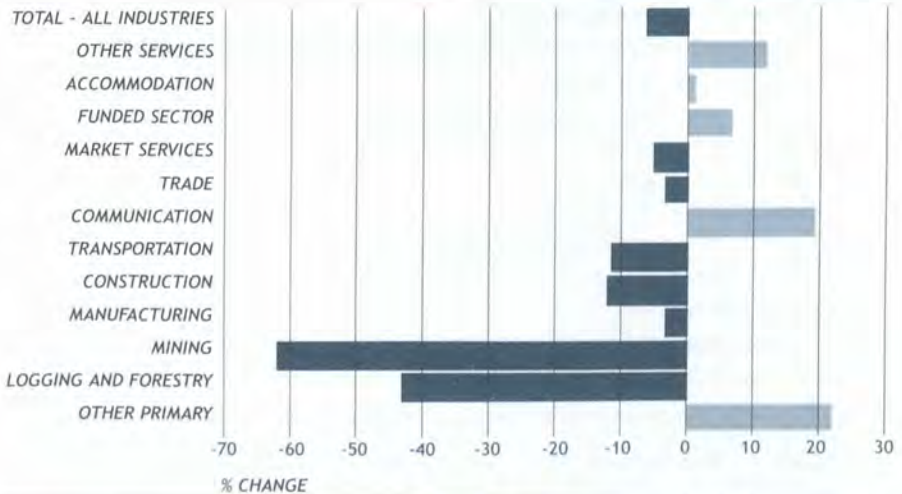


Chart 1.2 Changes in Employment by Industry, Northeastern Ontario, 1989-1993

Northwestern Ontario

Employment distributions in Northwestern Ontario for 1989 and 1993 are shown in Chart 1.3. Northwestern Ontario includes the census districts of Kenora, Rainy River and Thunder Bay, and represents one-third of Northern Ontario employment. In 1993, the most important sector was the funded sector, responsible for 29.2% of total employment in the region. Other important sectors were the trade sector (15.0%), manufacturing (12.9%), and the accommodation, food and beverage (9.6%) sectors. The mining sector was responsible for only 2.9% of total employment in the region, while the logging and forestry sector provided 1.7%.

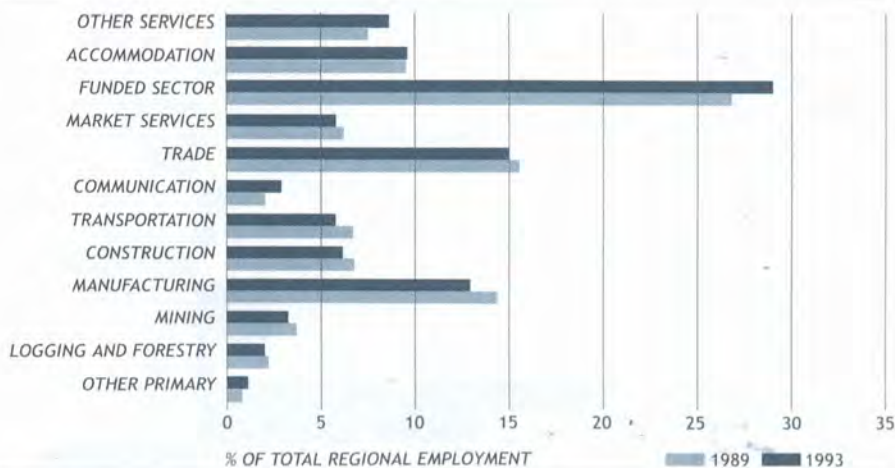


Chart 1.3 Employment Distribution by Industry, Northwestern Ontario, 1989 and 1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

There was no significant difference between the 1989 and 1993 employment distributions in the region. The share of total regional employment in the funded sector increased from 26.7% to 29.2% during the period. At the same time, the share of employment in the manufacturing sector decreased from 14.5% to 12.9%. Changes in the employment shares of the other sectors were minor.

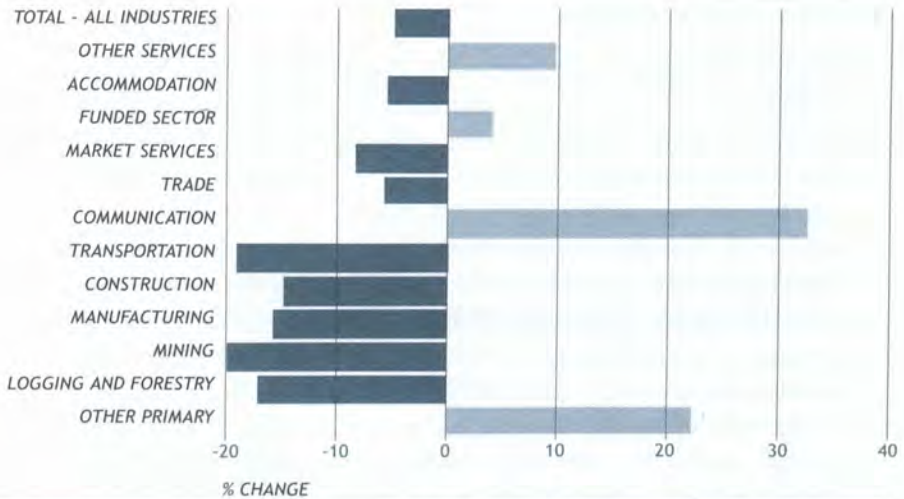


Chart 1.4 Changes in Employment by Industry, Northwestern Ontario, 1989-1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Chart 1.4 shows the percentage changes in the level of employment during the 1989 to 1993 period for each of the industrial sectors in Northwestern Ontario. Significant positive changes in employment levels were recorded in the other primary (21.6%) and the communication and utilities (31.5%) sectors. The funded sector experienced an increase of only 3.6% during this period. Resource-based sectors experienced significant decreases in employment levels: 16.9% in the forestry and logging sector, and 19.9% in the mining sector. Both the manufacturing and transportation sectors decreased significantly, by 15.7% and 19% respectively. The decreases in the employment levels of the other sectors in the region are varied.

Summary: Northern Ontario

In 1993, the employment distributions of the two regions were quite similar. The economy of both regions is overwhelmingly dependent on the funded sector, which provides approximately 30% of employment. The trade and manufacturing sectors are also major contributors to employment, providing nearly 30% in total. The overall decreases in the total level of employment in Northeastern (5.7%) and Northwestern Ontario (5.0%) from 1989 to 1993 were almost identical. Both regions experienced similar increases in the employment levels of the other primary and funded sectors. Although the employment gain in the communications and utilities sector was significantly greater in the Northwest, this region experienced greater declines in the remaining service sectors. The percentage decline in the employment level of the resource-based sector was greater in Northeastern Ontario. The decreases in the remaining goods-producing sectors were greater in the Northwest.

The employment losses in the resource-based and manufacturing sectors that characterized the economy of Northern Ontario during the 1981-1991 period continued into the early 1990s. Both regions experienced substantial employment losses in these sectors during the 1989-1993 period. Northeastern Ontario experienced greater declines in the mining and forestry and logging sectors, but a smaller decline in the manufacturing sector.

Gender and the Labour Force in Northern Ontario

The employment levels of men and women are highly sector-dependent. This section examines the distribution of employment by gender in Northern Ontario and the impact that changes in employment in the different sectors have had on men and women.

The 1993 employment distributions of men and women in Northern Ontario are shown in Chart 1.5. Men are primarily concentrated in the goods-producing sectors, while women are mostly concentrated in the service sectors. The differences in the two distributions are significant in all sectors, except for other primary, and communication and utilities. The manufacturing sector is responsible for 21.6% of male employment

in Northern Ontario, compared to only 3.6% for females. Men are also more concentrated in the construction (9.7% vs. 1.6%), transportation (6.8% vs. 2.2%) and mining (5.8% vs. 0.6%) sectors. Women dominate in the funded (42.1% vs. 20.6%), accommodation (12.1% vs. 5.3%) and market services (8.7% vs. 4.2%) sectors.

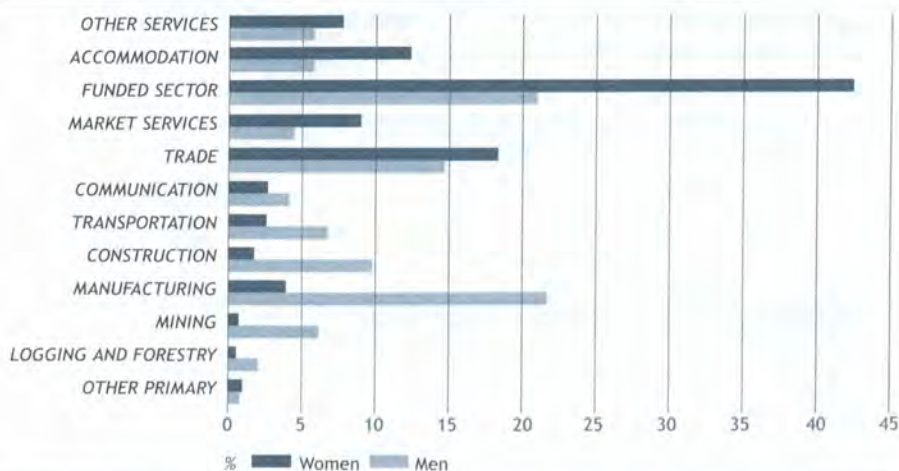


Chart 1.5 Employment Distribution by Gender, Northern Ontario, 1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Between 1989 and 1993, the overall level of employment for men in the region decreased by 11.6%, compared to a decrease of only 2.7% for women. Sectorial changes by gender are illustrated in Chart 1.6. The decrease in employment levels in several sectors was not compensated for by increases in other sectors, since overall employment levels for both men and women decreased. The sizable decrease in the employment level for men is a result of decreases in the natural resources, transportation, manufacturing and construction sectors (Charts 1.2 and 1.4), which predominantly employ men. Men gained employment in the service sectors, but these gains were much smaller than the losses in other sectors.

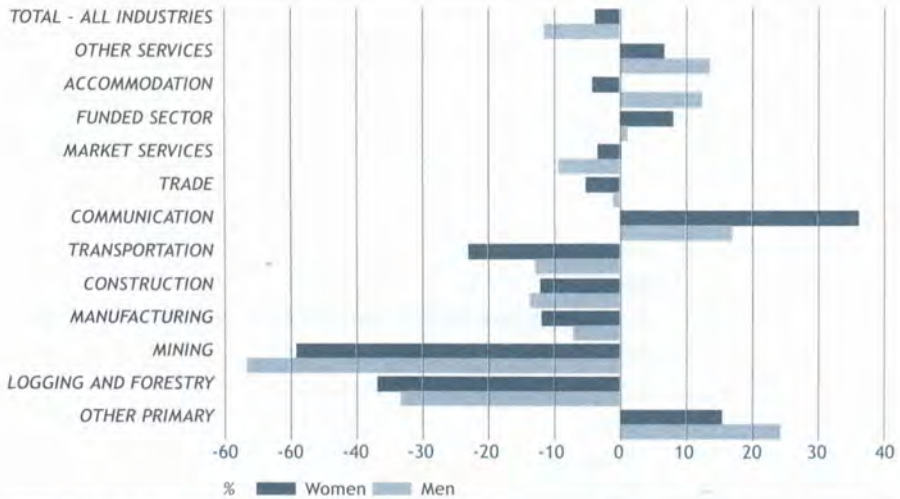


Chart 1.6 Changes in Employment by Industry and Gender, Northern Ontario, 1989-1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Women benefited the most from the increase in employment in the communication, funded and other service sectors, and these increases almost compensated for decreases in the goods-producing sectors.

In most of the goods-producing sectors, both genders experienced similar decreases in employment levels; however, the decline in employment of women was greater in the manufacturing (12.2% vs. 6.8%), logging and forestry (36.3% vs. 33.8%), and transportation (22.9% vs. 12.9%) sectors. The percentage decline in employment levels was only greater for men in the mining sector (56.1% vs. 49.2%). The declines in the construction sector are similar for men and women (13.8% vs. 12.8%), and the increase in the other primary sector is greater for men. Although both men and women experienced employment gains in the communications and utilities sector, the increase was significantly greater for women (35.6% vs. 16.3%). Employment increases in the funded sector were also more favourable for women, while in the market services sector, women's employment declined less than that of men. At the same time, employment changes were more positive for men in the trade, accommodation, and food and beverage sectors.

The Importance of the Wood-based and Mining Industries

Major job losses in the resource-based and manufacturing sectors occurred at least until 1993. Further declines in these sectors will certainly have unfavourable effects on the income-generating capacity of the regional economy, since these sectors are integral parts of the base economy. The mining sector includes the following industries: metal mines, non-metal and coal mines, the crude petroleum and natural gas industries, quarry and sand pit industries, and the service industries incidental to mineral extraction. The forestry and logging sector includes the logging industry and the forestry services industry. How can we accurately measure the importance of these sectors in the economy? Two measures are often used: the share of total regional employment and the share of total regional earnings.

	EARNINGS (%)			EMPLOYMENT (%)		
	LOGGING & FORESTRY	MINING	MANUFACTURING	LOGGING & FORESTRY	MINING	MANUFACTURING
NORTHERN ONTARIO	1.2	6.1	19.6	1.1	3.3	13.0
N.E. ONTARIO	0.8	6.3	19.6	0.9	3.5	13.1
N.W. ONTARIO	1.9	5.8	19.5	1.7	2.9	12.8
ATLANTIC REGION	1.3	1.8	12.9	1.6	1.0	12.2
SOUTHERN ONTARIO	0.01	0.5	22.6	0.04	0.3	18.6
CANADA	0.5	2.1	18.5	0.6	1.2	15.2

Table 1.1 Employment and Earnings Shares for the Logging, Mining and Manufacturing Sectors, Selected Regions, 1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Table 1.1 presents the shares of total regional employment and earnings of the mining, logging and forestry, and manufacturing sectors for selected regions in 1993. In all of these regions, the forestry sector generated less than 2% of total regional earnings. This sector was also responsible for less than 2% of total regional employment. The largest shares for the sector are found in Northwestern Ontario, where employment and earnings shares are 1.7% and 1.9% respectively.

The mining sector is relatively more important in Northern Ontario, where it generates approximately 6.1% of regional earnings. The share of total regional employment varies for the sector, from 2.9% in Northwestern Ontario to 3.5% in the Northeast. The mining sector is relatively smaller in the other regions of the country.

In all regions, manufacturing is the largest of the three sectors. In Northern Ontario, this sector generates approximately 19.6% of total regional earnings and is responsible for approximately 13% of employment. This compares to 22.6% and 18.6% in Southern Ontario. The share of total regional employment for this sector in Northern Ontario and the Atlantic Region is similar, although the share of total regional earnings is substantially larger in Northern Ontario. This suggests that average earnings in manufacturing are higher in Northern Ontario than in the Atlantic provinces. It is also worth noting that in Northern Ontario, earnings from manufacturing are somewhat higher than the Canadian average, although the share of regional employment for the sector is below the national average.

To construct Table 1.1, employment and earnings statistics were aggregated at the one-digit level of the Standard Industrial Classification (SIC) code. As a result, mining, logging and forestry are shown as completely separate sectors. However, most of the activity in the manufacturing sector in Northern Ontario is concentrated in the wood, paper and primary metals industries. In many communities of Northern Ontario, the manufacturing sector is closely tied to or completely dependent on the resource-based sector for its operation. In some cases, the sectors are vertically integrated so that management decisions in one sector are felt in the others.

Consequently, to see the total importance of the mining, logging and forestry sectors, it is necessary to aggregate the earnings and employment statistics at the two digit level of the SIC. Table 1.2 shows the results of this aggregation. The wood-based sector includes the logging and forestry sector, as well as all related manufacturing industries. The mining-based sector includes mining and all related manufacturing industries. In Northern Ontario, the wood-based sector is responsible for 6.9% of employment and generates 10.4% of earnings. The mining-based sector is responsible for 7.2% of employment and

generates 13% of earnings. These two sectors are together responsible for 14.1% of employment and generate 23.4% of earnings. Both sectors have a much greater share of the economy of Northern Ontario than of the Canadian economy as a whole.

	EARNINGS (%)			EMPLOYMENT (%)		
	WOOD-BASED	MINING-BASED	OTHER MANUFACTURING	WOOD-BASED	MINING-BASED	OTHER MANUFACTURING
NORTHERN ONTARIO	10.4	13.0	3.3	6.9	7.2	3.2
N.E. ONTARIO	6.7	16.5	3.3	4.9	9.3	3.2
N.W. ONTARIO	17.9	5.8	3.5	11.2	2.9	3.2
ATLANTIC REGION	4.1	1.9	10.0	3.5	1.0	10.1
SOUTHERN ONTARIO	1.7	1.6	19.6	1.6	1.0	16.1
CANADA	3.5	2.6	14.2	3.0	1.6	12.1

Table 1.2 Employment and Earnings Shares for the Wood-based, Mining-based and Other Manufacturing Sectors, Selected Regions, 1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Table 1.2 also reveals regional differences in Northern Ontario. The wood-based sector is more important in Northwestern Ontario, where it is responsible for 11.2% of employment and generates 17.9% of total regional earnings, compared to earnings and employment shares of 4.9% and 6.7% in the Northeast. However, the mining-based sector is more important in Northeastern Ontario, where it is responsible for 9.3% of total regional employment, and generates 16.5% of total regional earnings, compared to employment and earnings shares of 2.9% and 5.8% in the Northwest. The other manufacturing sector is responsible for 3.2% of total regional employment, and generates 3.3% of regional earnings in Northern Ontario, well below the corresponding averages for Canada. There are no significant differences in the shares of this sector in Northeastern and Northwestern Ontario.

CHAPTER 2

Northern Ontario Business Sectors, Employment and Growth

The mix of business size and industry sector has a significant effect on the earnings of a region. Generally, small businesses provide the lowest employee wages. Consequently, as large business jobs are shed and replaced by small business employment, there is a net loss of earnings in a region. This can be offset to the extent that small businesses grow into medium-sized and larger businesses. There is also a significant difference in the wage rates paid to women and men, and this also affects earnings in a region. This chapter examines these issues with respect to Northern Ontario.

There were 24,708 businesses in Northern Ontario in 1995.

Approximately 88% had fewer than 20 employees, 96% fewer than 50 and 99% fewer than 200. Small and medium-sized businesses represent a significant proportion of the business community in many regions of the country, as shown in Table 2.1.

NUMBER OF EMPLOYEES	NORTHERN ONTARIO		ATLANTIC PROVINCES		SOUTHERN ONTARIO		CANADA	
	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%
1-4	14,256	57.7	51,722	63.3	159,941	56.7	571,848	59.7
5-9	4,555	18.4	13,665	16.7	49,758	17.7	166,997	17.4
10-19	3,005	12.2	8,380	10.3	34,144	12.1	109,573	11.4
SMALL	21,816	88.3	73,767	90.3	243,843	86.5	848,418	88.5
20-49	1,877	7.6	5,260	6.4	23,484	8.3	70,862	7.4
MEDIUM	1,877	7.6	5,260	6.4	23,484	8.3	70,862	7.4
50-199	829	3.4	2,182	2.7	11,899	4.2	32,102	3.3
200+	186	0.8	528	0.6	2,614	0.9	7,005	0.7
LARGE	1,015	4.1	2,710	3.3	14,513	5.1	39,107	4.0
Total - All Sizes	24,708	100	81,737	100	281,840	100	958,387	100

Table 2.1 Number and Distribution of Businesses by Size, Selected Regions, 1995

Source: SABAL 1996 - Business Register.

Although the distribution of businesses by size does not vary significantly across regions, in the Atlantic provinces, the percentage of businesses with fewer than five employees is slightly higher than in other regions, while the percentage of businesses with more than 49 employees is slightly smaller. The distribution of businesses by size in Northern Ontario is quite similar to that for Canada as a whole.

Growth in the Number of Businesses

All of the regions included in Table 2.1 experienced growth in the overall number of businesses during the 1991 to 1995 period. Although the total number of businesses in Northern Ontario increased by 8.6%, Chart 2.1 shows that more businesses were formed in the country as a whole (11.6%) and in the Atlantic region (12.2%). However, the increase in Northern Ontario was greater than the 7.8% increase recorded in Southern Ontario during the period.

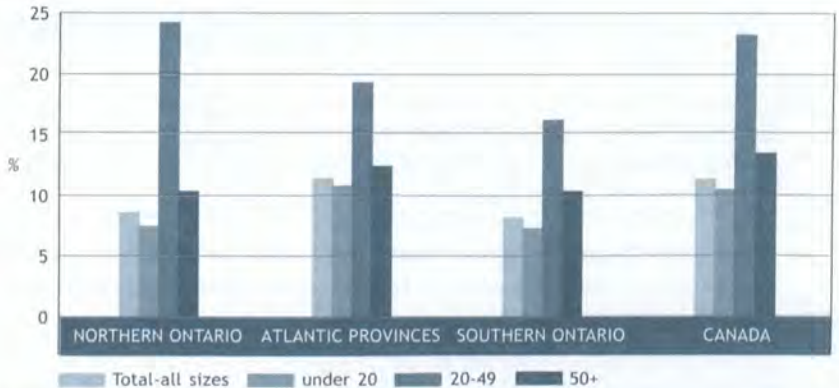


Chart 2.1 Four-year Growth Rates in Number of Businesses, Selected Regions, 1991-1995

Source: SABAL 1996 - Business Register.

Chart 2.1 also shows that in all regions, the growth rate in the number of businesses was highest in the medium-size range, that is businesses with 20 to 49 employees, and lowest in the small business segment (fewer than 20 employees).

The relative increase in the number of businesses was greater in Northern Ontario than in Southern Ontario for all business sizes. Compared to the Atlantic region and Canada as a whole, Northern Ontario experienced a higher four-year growth rate in the number of medium-sized businesses, and smaller relative increases in the number of small and large businesses.

NUMBER OF EMPLOYEES	NORTHEASTERN ONTARIO			NORTHWESTERN ONTARIO		
	NUMBER	%	FOUR-YEAR GROWTH RATE %	NUMBER	%	FOUR-YEAR GROWTH RATE %
1-4	10,065	59.1	7.5	4,191	54.6	5.3
5-9	3,105	18.2	-0.5	1,450	18.9	9.0
10-19	1,969	11.6	14.1	1,036	13.5	29.7
SMALL	15,139	88.9	6.6	6,677	87.0	9.6
20-49	1,214	7.1	26.2	663	8.6	19.9
MEDIUM	1,214	7.1	26.2	663	8.6	19.9
50-199	565	3.3	11.0	264	3.4	14.3
200+	117	0.7	5.4	69	0.9	4.6
LARGE	682	4.0	10.0	333	4.3	12.1
Total - All Sizes	17,035	100	7.9	7,673	100	10.2

Table 2.2 Number and Distribution of Businesses by Size in Northeastern and Northwestern Ontario for 1995 and Four-year Growth Rates 1991-1995

Source: SABAL 1996 - Business Register.

There are no significant differences in the distribution of businesses by size between Northeastern and Northwestern Ontario, as shown in Table 2.2. The relative share of businesses with fewer than five employees is slightly larger in the Northeast (59.1% vs. 54.6%), while the relative share in each of the other business size categories is slightly larger in the Northwest.

Table 2.2 also shows that the four-year growth rate in the total number of businesses was greater in Northwestern Ontario (10.2%) than in Northeastern Ontario (7.9%). The relative increase in the number of small (9.6% vs. 6.6%) and large businesses (12.1% vs. 10.0%) in the two regions was also greater in the Northwest. In the case of medium-sized businesses, the four-year growth rate of 26.2% in Northeastern Ontario was greater than the 19.9% increase recorded in the Northwest.

Sector Distribution of Businesses

The sector distribution of firms in Northern Ontario is shown in Chart 2.2. The most important market sectors (in which customers have alternative suppliers available) in terms of the relative number of businesses include the retail trade sector (19.4%), the construction sector (11.8%), and the accommodation and food and beverage sectors (11.2%). Mining and the logging and forestry sectors together account for only 4.5% of the number of firms in the region.

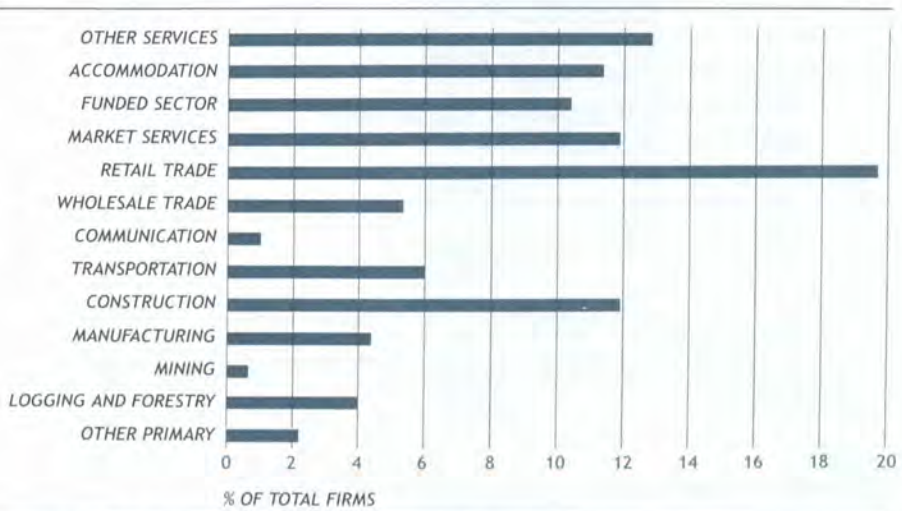


Chart 2.2 Sector Distribution of Firms, Northern Ontario, 1995

Source: SABAL 1996 - Business Register.

The funded sector accounts for 10.4% of the businesses in the region. This sector, comprised of government services, educational services, and health and social services, is dominated by large, publicly funded institutions.

The sector distribution of businesses in Northeastern and Northwestern Ontario is very similar, as shown in Chart 2.3. A notable difference is found in logging and forestry, which stands at 6.6% in the Northwest, compared to 2.7% in the Northeast. Also, the number of businesses in both the retail trade and construction sectors is proportionally larger in

Northeastern Ontario than in the Northwest. The share of the retail trade sector in the two regions is 20.3% and 17.4% respectively. In the construction sector, the shares are 12.4% and 10.5% respectively.

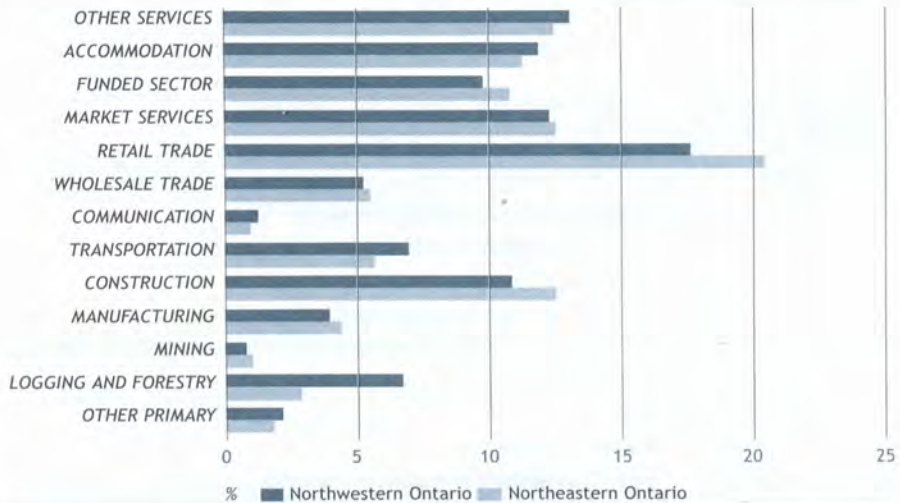


Chart 2.3 Sector Distribution of Firms, Northeastern and Northwestern Ontario, 1995

Growth in the Number of Businesses by Sector

Chart 2.4 shows the change in the number of businesses by sector for the period 1991 to 1995. Most sectors experienced growth in Northern Ontario and in Canada as a whole. In Northern Ontario, significant increases were recorded in communication and other utilities (30.3%), and the logging and forestry sectors (26%); mining was the only sector to experience a significant decrease (11.8%) in the number of businesses. Finally, the number of businesses in the funded sector increased by 12.7%.

The Northern Ontario growth rates in the number of businesses within some sectors were comparable to the rates for Canada as a whole. A notable exception was the mining sector, which increased by 10.9% in Canada, but decreased by 11.8% in Northern Ontario, as noted above. The increase in the number of businesses was also greater in Canada

compared to Northern Ontario in the accommodation, market services, transportation, construction, logging and forestry, and other primary industry sectors. Compared to Canada, Northern Ontario experienced a significantly larger increase in the number of businesses in the communication sector.

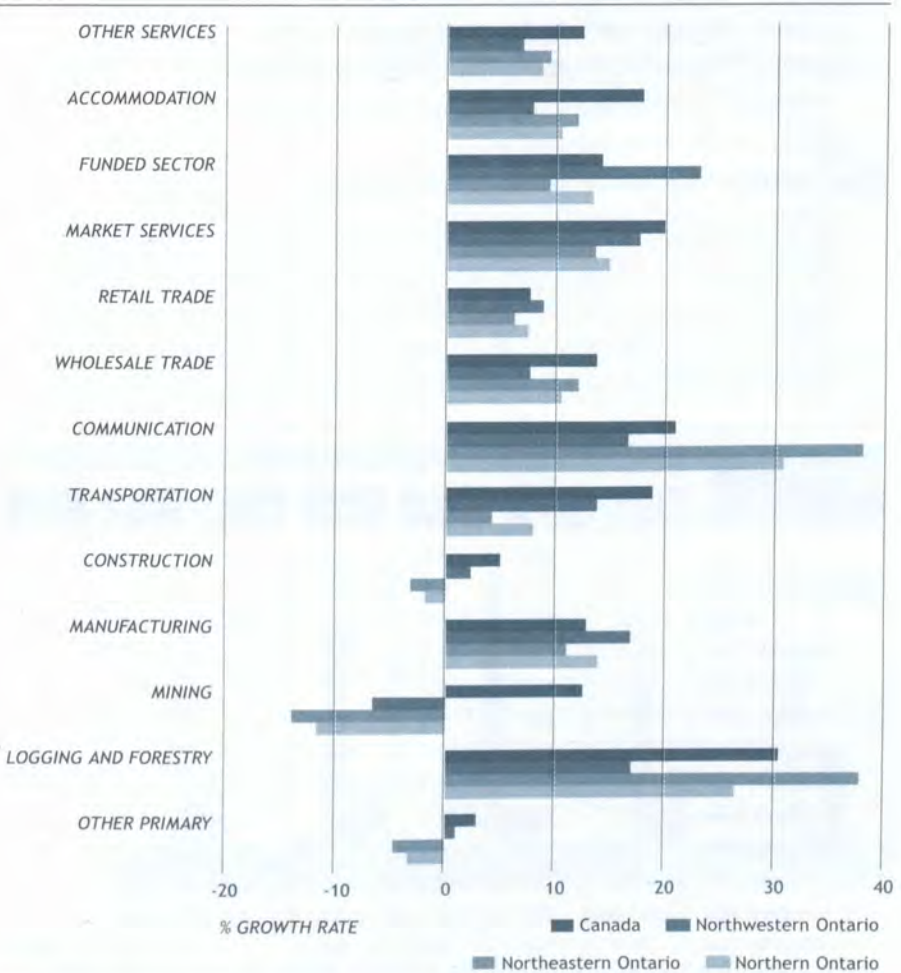


Chart 2.4 Four-Year Growth Rates in Number of Businesses by Sector, Northern Ontario, 1991-1995

Source: SABAL 1996 - Business Register.

Chart 2.4 also reveals regional differences in the four-year growth rates in Northern Ontario. Increases in the number of businesses were larger in the Northeast than in the Northwest in both the logging (38.1% vs. 16.8%) and the communication and other utility sectors (38.1% vs. 16%). However, a decline of 13.4% in the mining sector in the Northeast was steeper than the decline of 6.8% recorded in the Northwest. Northwestern Ontario experienced a significantly larger increase in the transportation and storage sector (13.6% vs. 3.7%), and in the funded sector (21.7% vs. 9.3%).

Sector Distribution of Businesses by Size

As shown in Table 2.3, in most sectors of the Northern Ontario economy, more than 80% of businesses have fewer than 20 employees. Notable exceptions are the mining and manufacturing sectors, in which small businesses account for only 64.3% and 74% of the total number of businesses respectively. It is only in these two capital-intensive sectors

INDUSTRY	NUMBER OF EMPLOYEES						TOTAL ALL SIZES
	1-4	5-9	10-19	20-49	50-199	200+	
Other Primary	82.6	10.0	4.0	2.6	0.8	0.0	100
Logging and Forestry	72.7	13.6	6.4	4.5	2.3	0.5	100
Mining	44.6	14.7	5.1	11.5	14.0	10.2	100
Manufacturing	45.6	16.8	12.7	12.5	9.8	2.7	100
Construction	68.4	15.2	8.2	6.1	2.0	0.1	100
Transportation	65.2	14.1	9.5	7.2	3.5	0.6	100
Communication	54.8	17.5	10.5	10.1	5.7	1.3	100
Wholesale Trade	48.8	22.3	16.3	10.7	1.7	0.2	100
Retail Trade	49.3	24.3	17.4	6.5	2.2	0.2	100
Market Services	66.6	15.4	10.3	6.0	1.8	0.1	100
Funded Sector	49.2	19.5	10.5	9.1	8.1	3.8	100
Accommodation	41.4	22.5	17.9	13.6	4.4	0.2	100
Other Services	70.2	15.1	8.7	4.3	1.5	0.1	100
Total - All Industries	58.4	17.1	10.7	8.0	4.4	1.5	100

Table 2.3 Size Distribution of Firms by Sector, Northern Ontario, 1995 (%)

Source: SABAL 1996 - Business Register.

and the funded sector that more than 10% of businesses employ at least 50. Only the mining sector has a significant proportion (10.2%) of businesses with more than 200 employees. Large businesses are also present in the funded sector, where they have a 3.8% share.

The sector distribution of businesses by size in Northern Ontario is not significantly different from that in the other regions considered in this study. However, the prevalence of larger firms in the mining sector is unique to Northern Ontario, as shown in Chart 2.5. More than 24% of Northern Ontario mining firms have a minimum of 50 employees compared to a proportion of 7.9% at the national level. The Atlantic region has a similar proportion of small mining sector firms with fewer than 20 employees. However, the relative shares of the medium-sized and large business segments are different. Medium-sized businesses account for 18.1% of the overall number of firms in the Atlantic region, as compared to 11.5% in Northern Ontario. Among businesses with at least 50 employees, the relative shares are 17.2% and 24.2% respectively. Chart 2.5 also shows a greater proportion of large businesses in the mining sector in Northwestern Ontario than in the Northeast.

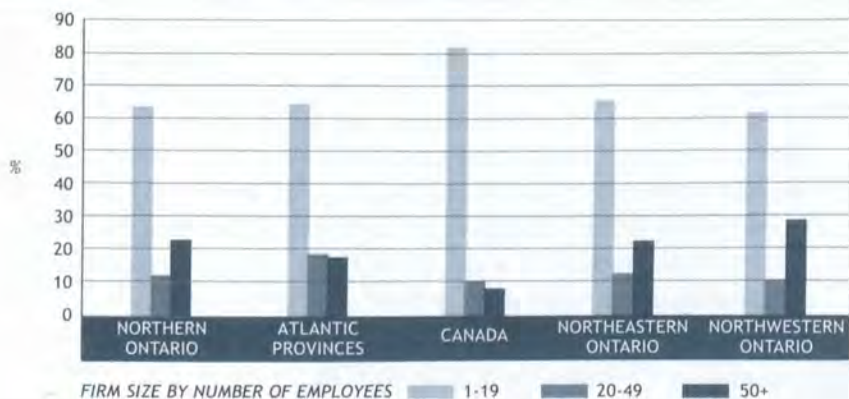


Chart 2.5 Distribution of Number of Businesses by Size in the Mining Sector, Selected Regions, 1995

Source: SABAL 1996 - Business Register.

Employment Distribution by Business Size

The following sections, which examine a number of variables in light of business size, are based on data sources other than those cited above. Since the numbers of employees used to define the business size classifications are different, the information in the charts and tables below cannot be readily compared to the information already presented.

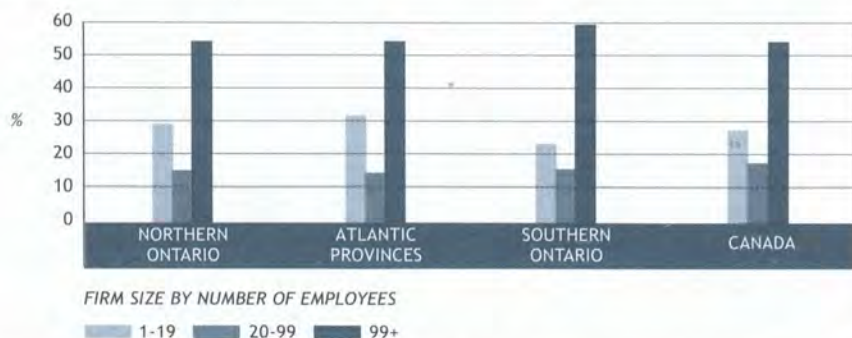


Chart 2.6 Distribution of Employees by Business Size, Selected Regions, 1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

In 1993, the latest year for which there was comprehensive data at the time of writing, approximately 30% of all employees in Northern Ontario worked in small businesses with fewer than 20 employees. Medium-sized and larger businesses employed 16% and 54% of workers respectively. Chart 2.6 illustrates that employment distribution by business size is similar across all of the regions considered, with the exception of Southern Ontario, where fewer employees worked in the smallest businesses and more worked in large businesses.

Employment Changes by Business Size

In all of the regions examined, the small business sector has become more important in terms of the absolute and relative number of employees it sustains. During the 1989 to 1993 period, the Canadian economy plunged into a recession from which it was slow to recover.

The total number of employees, and the number of employees in medium-sized and large businesses, decreased in all regions during this time period. Employment in small business was the only growth area.

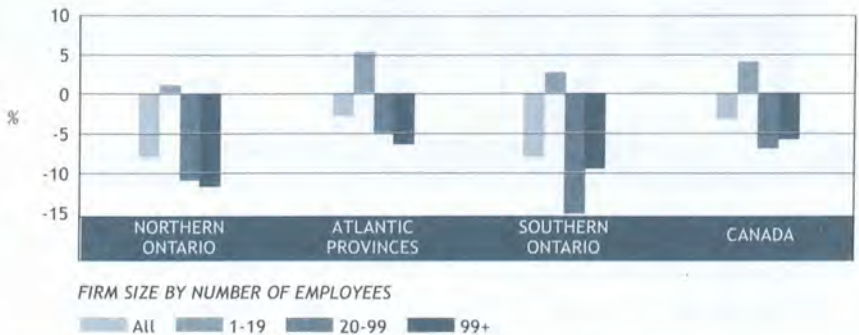


Chart 2.7 *Employment Changes by Business Size, Selected Regions, 1989-1993*

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Chart 2.7 shows that a decrease of 7.9% in the overall number of employees in Northern Ontario during this period was matched only by an 8% decline in Southern Ontario. In contrast, declines in employment for the period were much more modest in the Atlantic region at 2.6% and in Canada as a whole, at 3.3%. Compared to the Atlantic provinces and Canada as a whole, both Northern and Southern Ontario had a larger decrease in employment in the medium and large-sized business sectors and a smaller increase in employment in small business.

Northeast and Northwest Comparison

Employment distribution by business size in Northeastern and Northwestern Ontario is similar, as shown in Table 2.4. During the 1989 to 1993 period, both regions experienced decreases in the total level of employment, and in the employment levels of medium-sized and large firms. However, employment in small businesses in Northeastern Ontario fell, whereas it increased in the Northwest. Moreover, the

percent decrease in employment in the medium-sized business sector was almost twice as large in Northeastern Ontario as in the Northwest.¹

NUMBER OF EMPLOYEES	NORTHEASTERN ONTARIO			NORTHWESTERN ONTARIO		
	NUMBER	%	FOUR-YEAR GROWTH RATE %	NUMBER	%	FOUR-YEAR GROWTH RATE %
1-19	77,850	29.8	-1.5	34,660	28.8	6.2
20-99	42,630	16.3	-12.0	19,690	16.4	-6.9
99+	140,510	53.8	-11.3	65,890	54.8	-11.1
Total - All Sizes	260,990	100	-8.7	120,240	100	-6.0

Table 2.4 Employment Distribution and Growth Rate of Firms by Business Size, Northern Ontario, 1995

Source: SABAL 1996 Revenue Canada Business Administrative Data.

Earnings Distribution by Business Size

The relative importance of business size in a region can be measured not only in terms of employment numbers but also by the share of total employment earnings generated in the local economy, as shown in Chart 2.8. Although small businesses with fewer than 20 employees were responsible for 30% of employment in Northern Ontario (Chart 2.6), Chart 2.8 shows that they account for only 17% of employment earnings. Medium-sized businesses in the region generated 13% of employment earnings although they employ 16% of all employees. Finally, 70% of employment earnings are generated by larger businesses, which employ only 54% of workers. Differences in the distribution of employment earnings by business size across regions are minor.²

1. An industry analysis of employment distribution by business size would be a worthwhile exercise. However, the quality of the available data is poor as a result of confidentiality concerns, and does not allow for such an analysis at the sub-provincial level.
2. A sector analysis of the earnings distribution by business size would also be a worthwhile exercise that could facilitate a better understanding of the dynamics of the earnings capacity of Northern Ontario. Again, the quality of the available data does not permit such an analysis at the sub-provincial level.

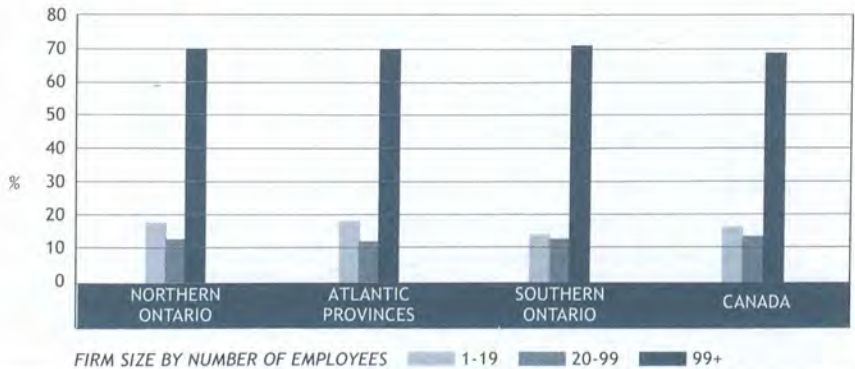


Chart 2.8 Distribution of Employee Earnings by Business Size, Selected Regions, 1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Average Earnings by Business Size

The observed discrepancy in employment and earnings distributions of employees by business size noted above suggests lower average earnings for employees in smaller and medium-sized businesses. This is confirmed for all regions in Table 2.5. In Northern Ontario, the average of overall employment earnings was \$24,964; however, in the small business sector, it was \$14,275. Thus small business employees earned

NUMBER OF EMPLOYEES	NORTHERN ONTARIO		ATLANTIC PROVINCES		SOUTHERN ONTARIO		CANADA	
	\$	INDEX*	\$	INDEX*	\$	INDEX*	\$	INDEX*
1-19	14,275	57.2	11,225	57.3	16,900	62.0	15,136	61.1
20-99	19,789	79.3	16,280	83.0	24,024	88.1	21,464	86.6
99+	32,352	129.6	25,320	129.1	32,321	118.5	30,695	123.9
All	24,964	100.0	19,605	100.0	27,267	100.0	24,771	100.0

Table 2.5 Average Earnings per Employee by Business Size, Selected Regions, 1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

* Index uses the earnings for all size businesses as a base, value 100, the other values as a percent of the base.

only 57.2% of the average Northern Ontario yearly wage. In medium-sized businesses, average annual earnings stood at \$19,789, 79.3% of the average earnings in the region. Average annual earnings in the large-sized business sector, at \$32,352, were 129.6% higher than overall average earnings in the North.

Table 2.5 also reveals that employees in Northern Ontario in each category of business size, earn more than their counterparts in Atlantic Canada, and the differences are sizable: 27.3% overall, 27.7% for small, 21.6% for medium-sized and 27.7% for large businesses. Average annual earnings of in Northern Ontario were 9.2% smaller than in Southern Ontario (\$24,964 vs. \$27,267), but comparable to the Canadian average of \$24,771. Employees in small and medium-sized businesses earn less, on average, in Northern Ontario than in Southern Ontario and Canada as a whole. In small businesses, average earnings in Northern Ontario are 18.4% lower than in Southern Ontario and 6.0% lower than the Canadian average. In medium-sized businesses, the differences are 21.4% and 8.5% respectively. However, the average employment earnings of employees in large businesses in Northern Ontario is comparable to the average in Southern Ontario, and 5.4% higher than the Canadian average.

Table 2.5 reveals that those employed in large businesses earned more in Northern Ontario than in most of the other regions examined. However, this was not the case for employees of smaller businesses, who earned comparatively less in the North than their counterparts in Southern Ontario and Canada as a whole. Consequently, the gap in average earnings between small and large businesses was wider in Northern Ontario than in the other regions. Compared to employees of large businesses in Northern Ontario, employees of small businesses were worse off, on average, than those in Southern Ontario and in Canada as a whole. In Northern Ontario, the average employment earnings in large businesses was 227% that in small businesses. This difference is almost identical to an earnings gap of 226% in the Atlantic provinces. But the differences are smaller in Southern Ontario (191%) and in Canada as a whole (203%). This would suggest that there is a wider distribution of income in Northern Ontario and the Atlantic region than in the other regions examined.

Average earnings per employee are greater in Northwestern Ontario than in Northeastern Ontario for each of the business sizes, as shown in Table 2.6. The average earnings per employee of \$25,890 in Northwestern Ontario is 5.5% greater than the average of \$24,537 in the Northeast. Employees in smaller and medium-sized businesses earn, on average, approximately 10% more in the Northwest. In large businesses, the difference is 2.6%.

NUMBER OF EMPLOYEES	NORTHEASTERN ONTARIO		NORTHWESTERN ONTARIO	
	\$	INDEX	\$	INDEX
1-19	13,841	56.4	15,255	58.9
20-99	19,173	78.1	21,118	81.6
99+	32,090	130.8	32,911	127.1
All Sizes	24,537	100	25,890	100

Table 2.6 Average Earnings per Employee by Business Size, Northern Ontario, 1995

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Consequently, the gap in average earnings for employees in small and large businesses is narrower in Northwestern Ontario than in the Northeast. Northwestern Ontario large business employees on average earn 216% more than their counterparts in the small business sector, compared to 232% in the Northeast. This suggests that there is a wider distribution of income in Northeastern Ontario, and that compared to employees in large businesses within their own regions, employees of small businesses are worse off in Northeastern Ontario, on average, than those in Northwestern Ontario.

Employment Distribution by Gender and Business Size

Employment distribution in Northern Ontario is shown by gender and business size in Chart 2.9. Smaller businesses in the region were responsible for 26.9% of male and 30.3% of female employment. Larger businesses were responsible for 57.2% of male and 53.3% of female employment respectively. The proportions of men and women who worked in medium-sized businesses were almost identical.



Chart 2.9 Distribution of Employment by Gender and Size of Business, Northern Ontario, 1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Chart 2.10 shows that compared to women in the other regions included in this study, slightly more women in Northern Ontario worked in small and medium-sized businesses, and fewer in large businesses.

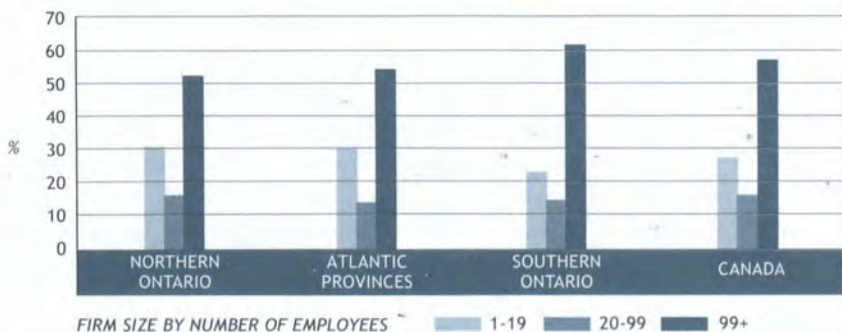


Chart 2.10 Distribution of Employment of Women by Size of Business, Selected Regions, 1993

Source: SABAL, 1996 - Revenue Canada Business Administrative Data.

Chart 2.11 shows that differences in the employment distribution of men in Northern Ontario and other regions were more varied than those observed above for women. The percentage of Northern Ontario men working in larger businesses is higher than that for Canada as a whole and the Atlantic region, but lower than the corresponding percentage in Southern Ontario. Compared to those in Southern Ontario, men in Northern Ontario were more concentrated in small businesses, and less so in medium-sized and large businesses. Small businesses in the North provided 26.9% of male employment, compared to 23.2% in Southern Ontario. Medium-sized businesses in Northern and Southern Ontario provided 15.9% and 17.3% of employment respectively. Large businesses in the two regions accounted for 57.2% and 59.5% of male employment respectively. Compared to the Atlantic region, small businesses in Northern Ontario have a lower share of male employment, while medium-sized and large businesses have greater shares. The relative share of employment of men in small businesses in Northern Ontario is similar to that for Canada as a whole, but smaller for medium-sized businesses.

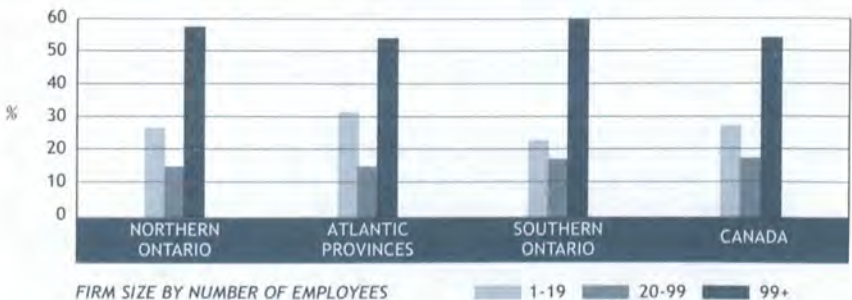


Chart 2.11 Distribution of Employment of Men by Size of Business, Selected Regions, 1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Employment Change by Gender and Business Size

During the 1989 to 1993 period, the overall employment level of men declined in all regions included in this study, as shown in Chart 2.12, as the recession had a greater impact in Northern Ontario. The decrease in employment for men in Northern Ontario of 11.6% was slightly greater than the decline of 9.5% recorded in Southern Ontario, and more than two times greater than the decreases of 4.7% and 5.5% in the Atlantic region and Canada as a whole respectively.

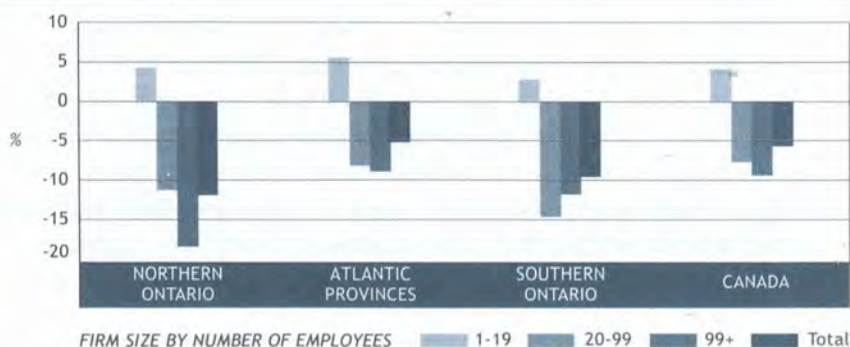


Chart 2.12 Employment Changes for Men by Business Size, Selected Regions, 1989-1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

The employment levels of men in medium-sized and large businesses declined in all regions during the period. Northern Ontario experienced the steepest declines in male employment in large businesses; the decline of 17.7% in Northern Ontario was greater than the decreases of 12% in Southern Ontario, 8.9% in the Atlantic region, and 9.1% in Canada as a whole. In medium-sized businesses, the decrease of 11.4% in the North was slightly smaller than the decline of 14.7% in Southern Ontario, but larger than the respective decreases of 8.1% and 7.5% in the Atlantic region and Canada as a whole.

Small businesses in all regions experienced growth in male employment levels during the period. The gain of 4.7% in Northern Ontario was slightly smaller than the 5.6% gain in the Atlantic provinces, but greater than the gains of 2.6% in Southern Ontario and 4.3% in Canada as a whole.



Chart 2.13 Employment Change for Women by Business Size, Selected Regions, 1989-1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Chart 2.13 shows employment changes for women by business size. The overall employment level of women declined during the 1989 to 1993 period, as it did for men. The decrease of 2.7% in Northern Ontario was smaller than the decrease of 5.2% recorded in Southern Ontario, but slightly greater than the decrease of 1.7% recorded in both the Atlantic region and in Canada as a whole.

The employment levels of women in medium-sized and large businesses also declined in all regions during the period. The decrease of 6.6% in the employment level in medium-sized businesses in the region was smaller than the decline of 12.8% in Southern Ontario, but larger than the decrease of 2.8% in the Atlantic region and 5.6% in Canada as a whole. The impact of the recession was less severe among large businesses in Northern Ontario, which decreased in number by

only 1.2%, compared to declines of 5.4% in Southern Ontario, 3.1% in the Atlantic region, and 1.7% in Canada as a whole during the period.

Northern Ontario is the only region among those considered in this study that experienced a decrease in the percentage of women working in small businesses. Although the corresponding increases were small in the other regions examined and across Canada, the decrease in Northern Ontario is particularly troubling since the percentage of Northern Ontario women who worked in small businesses was greater than the corresponding percentage in other regions and in Canada as a whole.

Comparison of Employment Changes

A comparison of male and female employment changes during the 1989 to 1993 period (Charts 2.12 and 2.13) reveals that the decrease in the total number of employees in all regions was significantly greater for men. The difference in the impact of the recession on men and women was more pronounced in Northern Ontario than in any other of the regions examined. The overall number of men employed in Northern Ontario fell by 11.6% during the period, whereas the decrease for women in the region was only 2.7%, a difference of 8.9 percentage points. By contrast, the difference stood at 3.0 points in the Atlantic region, 4.3 points in Southern Ontario, and 3.9 points in Canada as a whole.

The number of employees in medium-sized and large businesses also decreased for both genders in all regions and again, the decreases were significantly greater for men. In the large business sector, the gender difference was also more pronounced in Northern Ontario. There was a difference of fully 16.5 percentage points in the rates of employment decline for men and women, compared to 5.8 points in the Atlantic region, 6.6 points in Southern Ontario and 7.4 in Canada as a whole. In the medium-sized business sector, the difference of 4.8 percentage points in Northern Ontario was slightly smaller than the 5.3 spread in the Atlantic region, and larger than both Southern Ontario and Canada as a whole, which recorded identical differences of 1.9 percentage points.

During the 1989 to 1993 period, the number of employees in small businesses increased for both genders in all regions, except among women in Northern Ontario. The increase in the employment of men in small business was greater in all regions than it was for women. The gender difference was more pronounced in Northern Ontario, at 7.9 percentage points, compared to 4.0 points in the Atlantic region, 1.7 points in Southern Ontario and 3.2 points in Canada as a whole.

Average Earnings By Gender and Business Size

Table 2.7 shows the average annual employment earnings of men in different sized businesses in selected regions. The average earnings of men, in each of the business sizes, are substantially greater in Northern Ontario than in the Atlantic region but smaller than in Southern Ontario. Average earnings in Northern Ontario were 29.7% higher for small, 21.6% higher for medium-sized and 26.0% higher for large businesses, than in the Atlantic region. The average employment earnings of men in small and medium-sized businesses were lower in Northern Ontario than in the two other regions. The average employment earnings in small businesses were 17.1% higher in Southern Ontario and 6.2% higher in Canada as a whole than in Northern Ontario. In medium-sized businesses, average earnings were 20.7% higher in Southern Ontario and 7.5% higher in Canada as a whole. The average of employment earnings in large businesses in Northern Ontario is comparable to that of Southern Ontario and 3.4% higher than the Canadian average.

NUMBER OF EMPLOYEES	NORTHERN ONTARIO		ATLANTIC PROVINCES		SOUTHERN ONTARIO		CANADA	
	\$	INDEX	\$	INDEX	\$	INDEX	\$	INDEX
1-19	17,854	57.0	13,766	56.6	20,900	61.6	18,961	61.3
20-99	25,446	81.2	20,921	86.6	30,716	90.5	27,366	88.4
99+	39,332	125.5	31,229	128.5	39,969	117.7	38,035	122.9
All	31,348	100.0	24,309	100.0	33,947	100.0	30,951	100.0

Table 2.7 Average Earnings of Men by Business Size, Selected Regions, 1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

Table 2.8 shows the average annual earnings of women in selected regions by business size. Women in Northern Ontario earned more, on average, than their counterparts in the Atlantic region in each of the business sizes. The differences vary from 33.1% for small businesses, to 26.1% for medium-sized and 24.3% for large businesses.

NUMBER OF EMPLOYEES	NORTHERN ONTARIO		ATLANTIC PROVINCES		SOUTHERN ONTARIO		CANADA	
	\$	INDEX	\$	INDEX	\$	INDEX	\$	INDEX
1-19	12,309	64.4	9,247	60.3	14,895	97.5	12,991	65.5
20-99	15,194	79.5	12,053	78.6	17,818	80.7	16,193	81.6
99+	24,199	126.6	19,474	126.9	25,722	116.5	24,067	121.3
All	19,121	100	15,343	100	22,076	100	19,833	100

Table 2.8 Average Earnings of Women by Business Size, Selected Regions, 1993

Source: SABAL 1996 - Revenue Canada Business Administrative Data.

The average earnings of women in Northern Ontario were significantly lower than the average earnings of women in Southern Ontario. In small businesses, women in the Northern Ontario region earned, on average, 21% less than their counterparts in Southern Ontario. The differences in average earnings for medium-sized and large businesses between the two regions were 17.3% and 6.3% respectively. Compared to the Canadian averages, women in Northern Ontario earn 5.5% and 6.6% less in small and medium-sized businesses respectively. In large businesses, the average employment earnings in Northern Ontario are comparable to the Canadian average. Tables 2.7 and 2.8 demonstrate clearly that women earned less than men on average in all of the regions examined in this comparison.

CHAPTER 3

Entrepreneurial Environment and Financing

This chapter begins with a brief overview of the dynamics of entrepreneurship. Selected variables are then considered, among them the future hiring plans of small businesses, the utilization of government support programs and perceived barriers to small business development. As noted in the federal government's 1994 report *Growing Small Business*:

A positive business environment can make the difference between success and failure... this environment includes... the structure of regulations, the practices and expectations of lenders and borrowers, and the efficacy of government programs.

Accordingly, this chapter also examines private sector financial institutions and government assistance initiatives in the context of the particular experiences and attitudes of Northern Ontario entrepreneurs.

Who Are the Entrepreneurs?

Popular belief may have it that entrepreneurs are distinguished by such personal characteristics as self-reliance, creativity, independence, enthusiasm, a strong need for achievement, the capacity to inspire others and the ability to improvise. However, the characteristics associated with entrepreneurship are quite different than this suggests. For example, while a high tolerance for risk is frequently accepted as an entrepreneurial trait, leading theorists (Schumpeter 1934; Brockhaus 1980) reject this notion altogether. Entrepreneurs are not necessarily gamblers: although they do move forward before being forced into action by events, they still take the time to anticipate obstacles and ensure that the requisite resources can be obtained.

The typical entrepreneur seems to possess a knack for seeing what others have not seen and for challenging the status quo. Carland, Hoy, et al. (1984) point to innovation as the key characteristic distinguishing entrepreneurs from non-entrepreneurial managers. By definition, a decision-maker must be at capital risk in order for entrepreneurship to

be present. Indeed the *Gage Canadian Dictionary* defines an entrepreneur as “a person who organizes and manages a business or industrial enterprise, attempting to make a profit but taking the risk of a loss.” Moreover, Sexton (1991) believes that a propensity toward growth is a key component of entrepreneurship.

Schumpeter pioneered the theory that entrepreneurship is a process of “creative-destruction” with innovation as its hallmark. It is characterized, he asserted, by one of three explicit conditions:

- the introduction of a new product, service or process;
- the development of a new market or source of supply; or
- the creation of a new organization.

An entrepreneur is someone who seeks out or recognizes an opportunity, and has the will and determination to capitalize on that opportunity by organizing the necessary resources and developing a strategy to grow a business.

Theoretically, then, entrepreneurship entails a process of wealth creation and a proven capability to turn opportunity into success. In light of this definition, the operator of a small business is not necessarily a true entrepreneur. However, for the purposes of this discussion, all small business owners will be considered to be entrepreneurs.

The Motivation to Become an Entrepreneur

Several studies have examined the motivation for and precursors to entrepreneurship (Reynolds 1992). It is generally accepted that there are three factors underlying the decision to start a business: the economic environment, personal circumstances and personality traits.

Entrepreneurs are often believed by others to have voluntarily chosen to run their own businesses after some positive exploration of ideas and resources. Although this is sometimes true, a large percentage of entrepreneurs have been displaced from employment and are forced to start a business to support themselves. This process is depicted in Figure 3.1. Some studies have reported that more than 50% of businesses are started as a result of a negative displacement (Shapiro 1975). In this study of Northern Ontario businesses, 20% of the respondents became

self-employed as a result of downsizing or the inability to find work. This may well be underreported as a consequence of methodology and respondent errors.

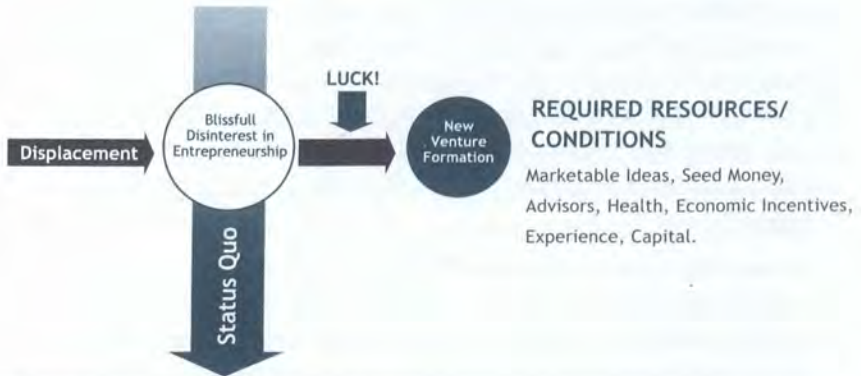


Figure 3.1 *The Entrepreneurial Event*

Adapted from R. Peterson, *Small Business: building a balanced economy*. Erin, Ont.: Press Porcepic, 1977.

Following displacement, individuals possessing the appropriate personal disposition and other resources will choose to form a new venture if it fits with their personal and economic goals. Success is dependent upon these factors and, to some extent, upon sheer luck. Whether entrepreneurs continue on this path is determined by their perceptions of the outcomes of new venture formation in light of their initial expectations.

The Environment for Entrepreneurship

Over the past two decades, the small business sector has risen to prominence. From 1981 to 1991, the small business share of Canada's private sector gross domestic product increased from 33 to 38%.¹ During the same period, small firms accounted for approximately 75 to 80% of new job creation each year.

1. Departments of Finance and Industry, *Growing Small Business* (Ottawa, 1994), p.5.

Key indicators of entrepreneurial vitality in a particular region generally include the overall level of employment, the growth of private sector employment, the birth rate of new organizations and the growth rates of young companies.² With respect to the birth rate of new organizations, statistics provided in Chapter 2 for the years 1991 to 1995 reveal a lower rate of growth in the creation of new small businesses in Northern Ontario than in the Atlantic provinces and the country as a whole. With respect to employment, in 1995, small enterprises (those with fewer than 100 employees) in Northern Ontario accounted for 45.8% of total employment, a ratio that is in line with the Canadian percentage of 45.1%.

A Northern Ontario enterprise that has only a regional focus is faced with a number of systemic impediments. These include the relatively small populations of the North's five main urban centres, the vast distances between these cities, sparsely populated rural areas, and the relatively modest industrial base (vis-à-vis the industrial heartland of Southern Ontario). However, mitigating factors are also present, notably the rapid advances in communications technology and the trend towards a global economy, both of which are opening up new opportunities for small and medium-sized companies, regardless of their location (discussed further in Chapter 5). These latter trends have also served as a catalyst for the continued expansion of the home-based business sector — fully 27% of the 229 small enterprises surveyed for this report operate from the home.

Future employment prospects are another means of assessing the environment for entrepreneurship in Northern Ontario. The survey undertaken as the basis of this report asked small business owners about their hiring intentions. It was found that 80 of 219 respondents (36.5%) planned to do no hiring over the subsequent two years, while only 18 companies (8%) expected to hire five or more employees during this period. As these conventional employment sources decrease, new entrepreneurial ventures will be the main sources of new employment in Northern Ontario.

2. The Atlantic Canada Opportunities Agency, *The Implementation of an Entrepreneurship Development Strategy in Canada* (Paris: Organization for Economic Cooperation and Development, 1996), p.12.

The Emergence of the Knowledge-based Sector

It is becoming increasingly evident that in order to meet the challenges of the New Economy, the pool of entrepreneurs, both those involved in starting new ventures and those who wish to develop existing organizations, will have to be further expanded. Canada is undergoing a transition to a knowledge-intensive economy, driven by developments in communications and information technologies. For instance, there are already more Canadians employed in the information technology sector than in automobile assembly, mining or banking. Another major trend is the evolution of the Internet as a medium for commercial transactions: as of 1995, approximately 2.5 million consumers worldwide had used the World Wide Web to purchase goods or services. Large companies with traditional organizational structures will see their respective competitive advantages eroded in an environment in which heavy equipment and assembly-line workers are displaced by intellectual assets and knowledge-based workers (Beck 1992).

These developments have clearly captured the attention of the political establishment, as illustrated by the following excerpt from the 1993 platform of the Liberal Party:

Ideas are the new natural resources. It is the information and knowledge-based industries... that are providing the foundation for jobs and economic growth.³

In this new marketplace, a higher proportion of the labour force will be self-employed; problem solving and innovation will have to occur throughout the organization, and technology will provide for both shorter product life cycles and a higher incidence of custom-designed products. It is also likely that networks of small enterprises will become more commonplace and that smaller companies will carry out a greater proportion of research and development activities. This poses a challenge to government policy makers and financial intermediaries, both of whom play a key role in the development of the country's entrepreneurial resources in all regions.

3. Liberal Party of Canada, *Keeping the Promise* (May 1994), p.37.

Financial Intermediaries

Background

Unlike their larger counterparts, small businesses generally raise capital in an unorganized market and rely more heavily on debt. The chartered banks play a dominant role in the financing of small enterprises. More than 80% of their business loan customers are small business owners, and with over \$30 billion in loans outstanding to Canadian small businesses, the banks' share of small and medium-sized enterprise (SME) lending activity is approximately 90%.⁴

As noted earlier in this chapter, the small business sector is a major engine of economic growth in Canada. This sector provides financial institutions with a substantial revenue base and is increasingly being targeted in the business development activities of the major financial intermediaries, including banks, trust companies, credit unions and caisses populaires.

However, from the perspective of the institutional lender, lending to the individual small business is often a risky proposition, given that there is a 50% failure rate within five years of start up in the sector (Vesper 1994). Typically, collateral is inadequate, the company's reporting procedures are not well developed and the costs of administering the loan are quite high in relation to its size.

Small business failure is often attributed to inadequate diversity in the skills of the management team and/or poor planning, which may be manifested in unrealistic estimates of demand for the product or service or insufficient projections of funding requirements. Given the heavy emphasis placed on the business planning process, not only by lenders, but also by small business counsellors and support groups, it is surprising that only 44% of the firms in this sample have prepared a business plan.⁵

-
4. These data are based on a definition of small business lending as any loan authorization below the \$1 million level.
 5. In comparison, 67% of the Sudbury area small firms who participated in a telephone survey conducted three years earlier reported that they had business plans in place (Zinger, Blanco, et al. 1996, 352).

Relevant experience is also regularly cited as a key success or failure variable. In an earlier nationwide study, 64% of entrepreneurs were reported to have prior experience in the same industry (Wynant, Hatch and Grant 1982, 110). In contrast, 46% of the 229 respondents to this study had been previously employed in the same industry, and only 14% (32) had previously owned another business in this industry.

Funding Sources

The inability to accumulate adequate start-up capital has always been a major constraint for the entrepreneur. The economic environment of Northern Ontario is similar to that of Atlantic Canada, where recent research has revealed, "that more than half of the start-ups are financed with personal money," and that "new and existing small businesses state lack of access to capital as a major barrier to business development." (ACOA 1996, 54).

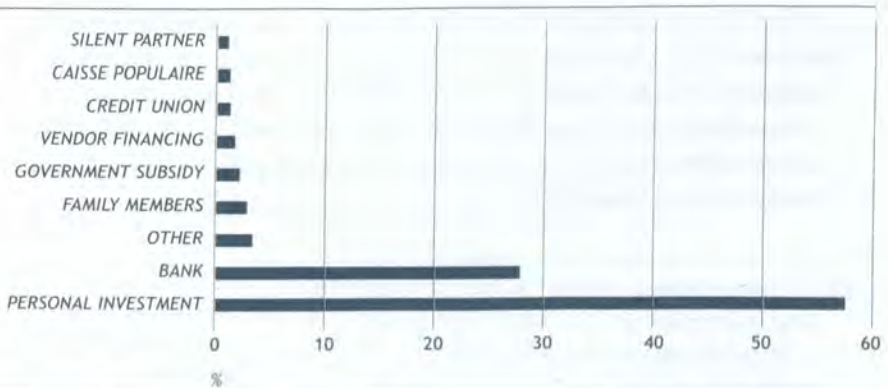


Chart 3.1 Sources of Initial Financing

It is disturbing to find that small enterprises in Northern Ontario are obliged to rely on personal investment and family members for 60% of their initial funding, as shown in Chart 3.1. As outlined in Chart 3.2, small business owners continue to rely on these personal sources for 42% of their ongoing financial needs. As indicated, the chartered banks represent the only other significant funding source, while government subsidies account for under 3% of total funding arrangements.

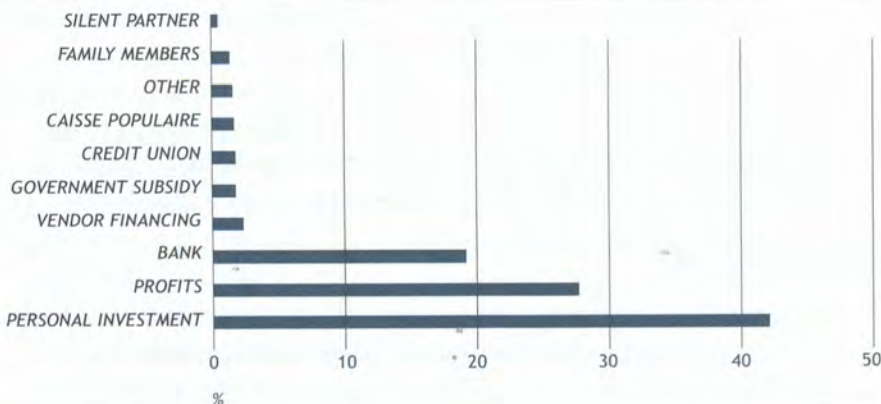


Chart 3.2 Sources of Operating Funds

This breakdown of funding sources lends credence to the criticism that in recent years, small firms have been encountering “increasing difficulty in obtaining financing for start-up, normal operations and expansion....” (The Standing Committee on Industry 1994). Limited access to both start-up funding and working capital increases the vulnerability of the typical small Northern Ontario firm, more so if the organization is hampered by narrow management expertise or limited background in the industry.

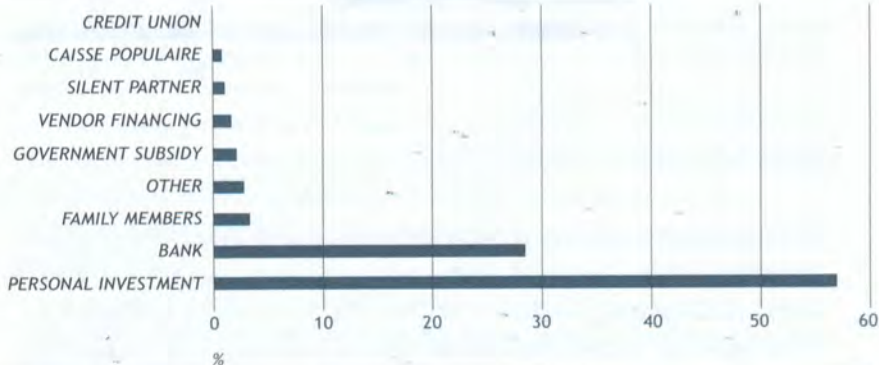


Chart 3.3 Start-up Funding, Male-owned Firms

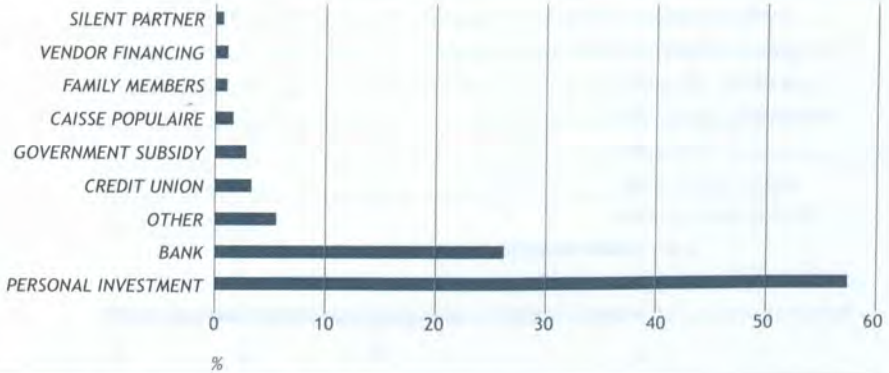


Chart 3.4 Start-up Funding, Female-owned Firms

The data illustrated in Charts 3.3 and 3.4 reveal two interesting dichotomies on gender lines. In general, male entrepreneurs do not rely on loans from credit unions or caisses populaires, whereas female entrepreneurs obtained 5.3% of their start-up requirements from these cooperatives. Female entrepreneurs, however, are less likely than their male counterparts to rely upon family members for start-up funding. Female business owners also rely more upon credit unions, caisses populaires and government funding for their ongoing financing requirements than do their male counterparts, as shown in Charts 3.5 and 3.6.

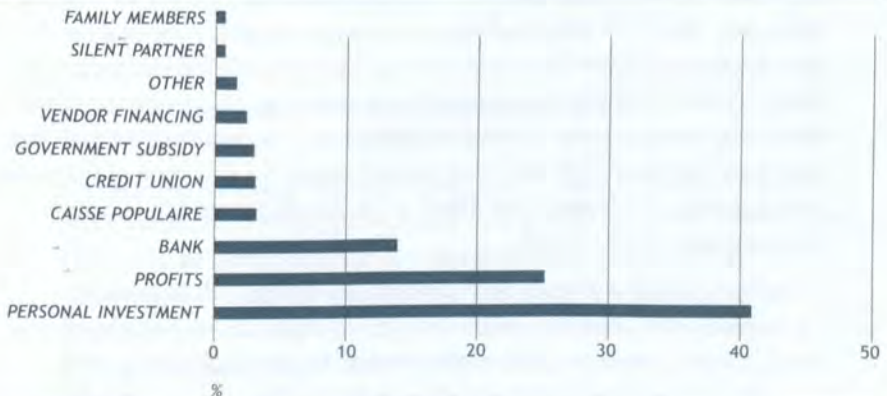


Chart 3.5 Operating Funding, Female-owned Firms

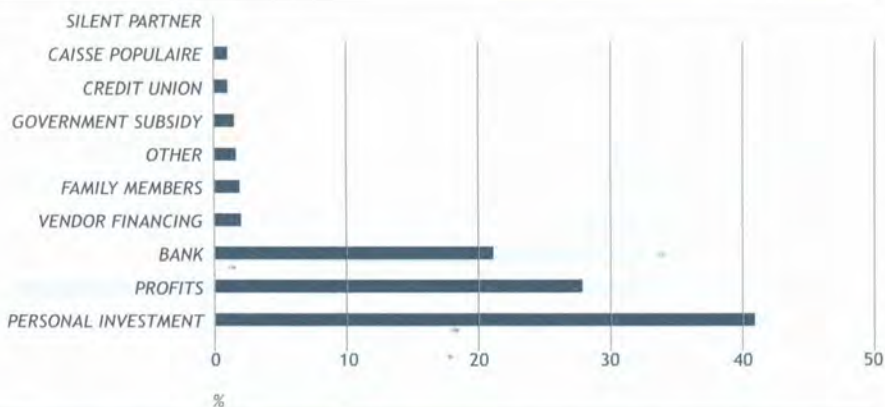


Chart 3.6 Operating Funding, Male-owned Firms

Small business owners traditionally supplement their bank loans with other forms of debt, such as government lending programs, leasing arrangements, or loans from specialized term lenders or insurance companies, and equity supplied by the owner, friends and relatives, or venture capital firms. However, personal sources of funds are quickly exhausted and without ongoing financial support for operating needs, opportunities in such key areas as job creation and product development are lost.

Venture capital is perceived in some quarters to be a cure-all for this dilemma. However, few small enterprises meet the criteria for venture financing, which include higher than average growth potential by virtue of some type of distinctive competence, highly qualified management, along with the willingness to accept a venture capitalist's controls and reporting requirements. Moreover, small business funding proposals are rarely sizable enough to warrant consideration for this type of financing arrangement. R. Moore of the Bank of Montreal provides a succinct commentary on this issue:

...the typical entrepreneur is of the opinion that their banker represents the only source of capital to them, and when they come to us with a proposal that is high-risk, highly speculative, and under-capitalized, and are told we cannot finance the venture for all those reasons, they accuse us of not helping small business. The

truth of the matter is the banks are low-risk lenders of their depositors' money, and traditionally provide debt financing. In many cases the small business needs venture capital, which is equity financing whereby an investor provides financing in exchange for ...shares in their company... This lack of awareness has to become part of the basic education provided to budding entrepreneurs.

– *Report of the Task Force on the Access to Capital by Small Business, 1994, p. 17*

The Financial Institution-Small Enterprise Relationship

The issue of the organization's relations with its main financial institution was addressed in broad terms by the following item in this Northern Ontario survey:

How would you grade your level of satisfaction with regard to your financing arrangements?

(Very disappointed - 0... to entirely satisfied - 100)

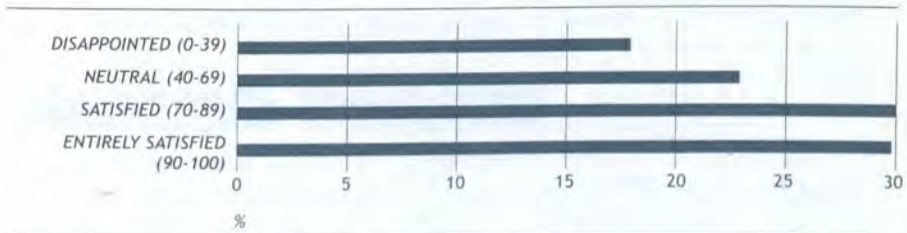


Chart 3.7 Satisfaction With Financing Arrangements

There were a total of 207 responses to this item. As outlined Chart 3.7, 63 of the owners (30%) provided a rating of 50 or lower, and of these, 37 (18%) can be categorized as disappointed, i.e., a 0-39 rating. A comparatively high proportion of those surveyed (59.5%) placed themselves at the high end of this scale, assigning ratings of 70 or more. This percentage also compares favourably to the results of a recent national survey conducted on behalf of the Canadian Bankers

Association (Thompson, Lightstone & Co. 1996, 184).⁶ However, the Thompson and Lightstone poll also measured “*value provided by main financial institution*” by region and the dissatisfaction levels (coincidentally 18% of the sample fell into the ‘disappointed’ category) were relatively high among small firms in Northern and Eastern Ontario compared to enterprises in other parts of the country.

One interesting aspect of the lender-small business borrower relationship is the propensity of the appropriate officer to visit the entrepreneur’s place of business. Of the respondents to this survey, 102 (59%) had been visited at some point by a representative of their lending institution. Given that a slightly higher percentage (62%) was reported in an earlier survey (CFIB 1979), it appears that there is either not as much of this type of interaction in Northern Ontario or that there has been little progress in this area during the intervening 18 years. The increase in the number of home-based businesses may also well be a mitigating factor.

As might be expected (see Table 3.1), owners who had been visited by their lender had a greater tendency to be satisfied with their financing arrangements (63.6%) than did those whose place of business had never been visited by a representative of their financial institution (47.8%).

	YES	NO
Entirely Satisfied	30.3	21.0
Satisfied	33.3	26.8
Neutral	19.6	35.2
Disappointed	16.7	17.0
	n=102	n=71

Table 3.1 Satisfaction Level of Business Owners with Their Banks vs. Ever Visited by Lender? (%)

6. This is not an exact comparison, since the Thompson, Lightstone & Co. sample consisted of only clients of the seven largest banks and the relevant questionnaire items referred specifically to “provides sufficient credit” (satisfied responses = 53%) and “flexible in structuring loans” (satisfied responses = 47%) rather than “financing arrangements.”

The home-based businesses in this study acquire more than 76% of their start-up funds from personal monies and family sources. This falls to 54.4% for the non-home-based businesses in the sample. In addition, as shown in Table 3.2, there seems to be evidence of a greater tendency on the part of commercial lenders to turn down credit requests from home-based enterprises. Given the aforementioned trend towards more home-based enterprises, it is clear that future economic development will be severely constrained if this sector must continue to operate to such a large extent outside of the financial system.

	ACCEPTED	ACCEPTED WITH MODIFICATIONS	PENDING	REJECTED OUTRIGHT
Total Sample (157)	79.6	5.7	3.2	11.5*
Male Owner (121)	81.0	5.0	2.5	11.5**
Female Owner (45)	80.0	6.7	4.4	8.9**
Home-based (38)	76.3	5.3	2.6	15.8
Non-home-based (126)	81.7	5.6	3.2	9.5

Table 3.2 Outcome of Most Recent Loan Application (%)

- * The overall responses can be compared to national surveys which revealed rejection rates of 13.8% (CFIB 1994) and 15% (Thompson, Lightstone & Co. 1996).
 ** The latter study also revealed that during 1995, rejection rates for male-owned and female-owned firms were 14% and 28% respectively.

The data in Table 3.2 must be interpreted with caution, since applications from a business that is new to the bank or requests for increased accommodation from an existing client are both more likely to be declined than a routine request to renew a company's operating line of credit. This study did not differentiate the responses along these lines.

While this survey of Northern Ontario enterprises did not specifically address the issue of account manager turnover, the Canadian Federation of Independent Business (1994, 27) has indicated this to be "one of the most significant determinants of lending terms." A stable relationship between the small business and its main financial institution is prerequisite to a healthy environment for entrepreneurial activity. Based on nationwide research, the CFIB has found that business owners who are dealing with a new account manager are more likely to have credit requests denied or receive less favourable loan terms than their

counterparts who enjoy greater stability in this area. Moreover, the CFIB found that account manager "continuity leads to better credit terms on interest rates and collateral requirements."⁷ The chartered banks are frequently criticized for the high turnover rates among their account managers. In response, the Canadian Bankers Association has committed itself to monitor the frequency of account manager turnover through a series of annual surveys to be conducted by Thompson, Lightstone & Company Ltd.⁸

It is difficult to determine whether Northern Ontario enterprises are more or less affected by bank personnel turnover than are small firms in other regions. Generally, branch managers and loan officers remain in rural and smaller urban branches for longer periods of time than is typical in the main commercial centres of Toronto, Hamilton, Ottawa and London. It may be that this pattern is beneficial to small firms located in the North. Nonetheless, anecdotal evidence reveals frustrations with credit approval processes that are still not sufficiently decentralized to meet the needs of business borrowers who are geographically removed from the main banking centres and/or happen to do business at a branch which has relatively low authorization limits.

A related issue is inconsistency in the lending decision. In their interviews with bank personnel, Wynant, Hatch and Grant (1982, p. 83) found evidence that a small branch would be more likely than a larger branch to decline a business loan application because less experienced officers would have "difficulty identifying marginal requests that could be restructured to be bankable."

7. Ted Mallett, *Report Card on Banking* (Toronto: CFIB, May 1992).

8. Based on its 1997 survey (on behalf of the Canadian Bankers Association), Thompson, Lightstone & Company found that account manager turnover continued to be a problem for small business operators. Only 41 percent of respondents indicated that they had the same manager as three years earlier, whereas in 1996, 47 percent had answered yes to the same question. This trend should be of particular concern to the banks inasmuch as the Canadian Bankers Association, in its 1995 annual report, pointed to the frequency of account manager turnover as "a source of frustration for some SME customers" (p. 27). Indeed, in their 1990 study, Wynant and Hatch concluded that:

The impact of account manager turnover on client relationships needs to be a priority issue in all of the banks and to be minimized through more careful management of those factors that can lead to turnover.

On the other hand, the inability of many entrepreneurs to prepare and adhere to a business plan will quite often manifest itself in a failure to adequately demonstrate the merit of their loan requests. Yet, in this study, this was not found to be a significant factor in terms of the disposition of the company's most recent credit application: 9.3% of firms with business plans had been rejected outright, compared to 12.2% of those without a business plan.

LEVEL OF SATISFACTION WITH FINANCING ARRANGEMENTS	SALES LEVEL (\$)			
	<250,000	250,000-499,999	500,000-1000,000	> 1,000,000
Entirely Satisfied	21.5	42.0	18.0	33.3
Satisfied	26.0	37.0	27.0	53.3
Neutral	18.5	21.0	55.0	13.3
Disappointed	34.0	0.0	0.0	0.0
	n=97	n=19	n=11	n=15

Table 3.3 Level of Satisfaction with Financing Arrangements Compared to Company Sales Level (%)

With respect to small firm owners and their degree of satisfaction with their financing arrangements, it was found that the size of the organization influenced these responses. Of the firms with sales under \$250,000, 34% were disappointed (a rating of under 40 on a 0-100 scale). Only 48% of the organizations in this category provided responses of at least 70 on this scale, compared to 86.6% of the companies with sales of over \$1 million (see Table 3.3). These results are in line with previous research, which has found that the smallest companies have the greatest difficulty obtaining adequate financing and are generally the least satisfied with their credit terms.

In addition, the data presented in Tables 3.4 and 3.5 suggest that an entrepreneur's level of satisfaction with financing arrangements is influenced more by how long the organization has been dealing with its lender than by how long it has been in operation.

LEVEL OF SATISFACTION WITH FINANCING ARRANGEMENTS	NUMBER OF YEARS WITH EXISTING LENDER			
	<1 yr.	1-3 yrs	4-5 yrs	>5 yrs
Entirely Satisfied (90-100)	6	25	20.0	30.7
Satisfied (70-89)	0	31	31.5	33.3
Neutral (40-69)	3	22	37.0	21.6
Disappointed (0-39)	91	22	11.5	14.4
Totals	100	100	100.0	100.0

Table 3.4 Level of Satisfaction with Financing Relative to Years with Lender (%)

LEVEL OF SATISFACTION WITH FINANCING ARRANGEMENTS	NUMBER OF YEARS IN BUSINESS		
	<5 yrs	6-10 yrs	>10 yrs
Entirely Satisfied (90-100)	40	26	27.0
Satisfied (70-89)	25	38	28.5
Neutral (40-69)	20	17	28.6
Disappointed (0-39)	15	19	15.9
Totals	100	100	100.0

Table 3.5 Level of Satisfaction with Financing Relative to Years in Business (%)

This item encompasses a wide range of factors such as the credit approval process, collateral requirements, interest rates and service charges, and loan conditions. Accordingly, respondents were also asked to specify the sources of their dissatisfaction. The responses are shown in Table 3.6.

Availability of funds	48
Collateral requirements	48
Other	32
Interest rates	27
Payment terms	15

*Table 3.6 Sources of Dissatisfaction with Financing**

* For this item, participants were asked to check all categories that apply.

These responses support the general belief that entrepreneurs tend to be more concerned with the availability of funds rather than the associated cost of borrowing. Collateral requirements also emerge as a major concern for Northern Ontario entrepreneurs. This finding coincides with that of Wynant and Hatch (1990, p.226), who reported that of the 104 small enterprises in their sample that were generally dissatisfied with their banking relationship, 70% complained about collateral requirements — notably, 87% had provided a personal guarantee. This is not surprising since small business owners are often expected to provide the lender with personal guarantees, in some cases supported by personal assets such as real estate, automobiles, Canada Savings Bonds, or publicly traded securities. Yet this is a common source of conflict in that entrepreneurs naturally prefer to keep their personal assets separate from their business. Ninety-eight of the 140 small business owners in this survey who had pledged personal assets had also provided personal guarantees in support of their loans.

In summary, small business lenders need to develop lending policies appropriate to the needs of the knowledge-based sector. In particular, the chartered banks should intensify their efforts to minimize account manager turnover. In addition, there may well be a need to provide more extensive training to loan officers so that they will be better equipped to evaluate the needs of their small business clientele. Account managers should also have work schedules that allow them to “visit the [company’s] premises and generally ...give more attention to the total relationship,” (CFIB 1994, 32). One respondent challenged the banks to get out of the “tower in Toronto” and not lose sight of the fact that they are “institutions created by the people working for the people....”

The Alternative Dispute Resolution Model developed in 1994 by the Canadian Bankers Association should, if implemented effectively, send a strong positive signal to small enterprises across the country. Bank customers can use this process if they are not satisfied with their bank’s handling of a particular complaint. This should provide greater accountability in such sensitive areas as decisions to decrease credit lines and bank requests for additional collateral.

Government Agencies and Programs

A wide array of government programs has been developed to fill perceived gaps in the small business support system in such areas as financing, training and access to information. For small enterprises, particularly those engaged in targeted activities, government assistance can be instrumental in solving financing problems and provides a source of technical expertise or market intelligence. Federal government initiatives such as the Industrial Research Assistance Program (IRAP) and the Canadian Technology Network (CTN), for example, benefit small enterprises engaged in technology development, while the Export Development Corporation (EDC), New Exporters to Border States (NEBS) and New Exporters to Overseas (NEXOS) initiatives assist those entering or expanding export markets.

Since the variety of federal and provincial funding and assistance programs can be overwhelming, independent businesses clearly require a single access point for these services. The network of Canada Business Service Centres has been established to address this need by providing 'one-stop shopping' information on some 900 federal and provincial programs and services.

Nonetheless, as already noted, the typical entrepreneur places a high value on independence and autonomy, and may be averse to seeking government grants, guarantees or low interest loans. This aversion is often attributable to concerns over onerous documentation requirements, slow response time, loss of confidentiality and/or unwanted interference in the internal affairs of the enterprise. It is reflected in the finding that only 38% of the sampled firms had participated in a government assistance program.

Only 9.6% of the firms in this sample assigned a rating of 80 or more to the following question:

To what degree have government programs met the needs of your business?

(Of no use - 0... to extremely useful - 100)

These results are comparable to those of the previously mentioned survey of Sudbury firms (Zinger, Blanco, et al. 1996), in which 4% of the

respondents awarded a rating of at least 80 on this scale. However, in that same study, 50% of the respondents provided a rating of 20 or lower in responding to this question, compared to 61.5% for this broader study of Northern Ontario firms. These decidedly negative ratings indicate that at the grass roots level, government programs for small business are not achieving the desired results.

Young business owners (under 35 years of age) were much more likely to use government programs than were older owners. Also, men were more likely than women to take advantage of these programs. Finally, it was found that there were two groups of firms that were the least likely to access government services: those with one to four employees and those with 50-199 employees.

The most popular government programs reported by Zinger, Blanco, et al. were Jobs Ontario, Futures, New Ventures, and the Northern Training Opportunities Program (NORTOP). Although the study that forms the basis for this report has a much broader geographic base, Table 3.7 reveals similar results on this question. Seventy-eight firms out of 221 indicated that there were specific government programs that had been of significant benefit to them (not all were named).

PROGRAM	NUMBER OF TIMES CITED
NORTOP/Student Employment/Experience Development	13
Small Business Loans Act	8
Futures	7
New Ventures	7
Self-employment Assistance Program/Wage Subsidy	7
FedNor	5
Youth Training	5

Table 3.7 Government Assistance Programs Identified

Taxes and government red tape and bureaucracy were the most frequently mentioned issues identified in responses to the following open-ended questions:

What is the greatest problem or barrier to success confronting your organization today?

What can government do to assist your organization?

A total of 38 questionnaires out of 229 made specific reference to a heavy tax burden (income, payroll, GST, etc.) and another 32 cited the need to reduce government imposed paperwork and reporting requirements. The next most common concerns were the need for broader loan guarantee programs (11) and the inability to retain skilled employees (5). Table 3.8 provides some representative comments.

TOPIC AREA	
GREATEST BARRIER	
	<p>It is very hard to stay afloat when taxes alone (i.e., WCB, EI, CPP, EHT) take 26% or more of your gross profit</p> <p>Accessing financing ... for expanding to other markets</p> <p>Availability of trained employees</p> <p>I would not recommend that anyone go into small business; hard work, no pay, government paperwork requires one employee</p> <p>Too much red tape; too many criteria which exclude businesses from qualifying for those programs which may exist</p>
WHAT CAN GOVERNMENT DO TO ASSIST?	
	<p>Forgivable grants should never be allowed at taxpayers' expense to compete with entrepreneurs who did it on their own</p> <p>Helped my business very much when first opened up by subsidizing employee wages</p> <p>There are far too many forms to fill out, different due dates, places to send remittances, etc.</p> <p>I do not like forced charity – special interest groups are treated differently</p> <p>My competition does not have to charge GST – this is discriminatory</p>

Table 3.8 Sample Comments on Barriers to Business and Government Assistance

The experience of small organizations in Northern Ontario appears to support the main themes of the federal government's 1994 position paper (*Growing Small Business*) in which four key areas of concern were identified: *the regulatory and paper burden*,⁹ *high taxes*, *restricted access to financing*, and *inefficiencies in government services*. Furthermore, the findings of this survey also support the contention of the Ontario Chambers of Commerce that "the regulatory regime under which small business is forced to operate is more important than access to capital." The Chambers also claimed, although this claim may be somewhat overstated, that "new business development has basically come to a halt in most areas of the province because of the regulatory conditions," (*Report of the Task Force on the Access to Capital by Small Business 1994*, 20).

In considering small business criticism of government programs, it is important to acknowledge that some claims and comments indicate shortcomings on the part of the respondents. For instance, small business owners are often guilty of failing to search out and act on information that is routinely available. While this survey does point to a widespread sense of frustration among Northern Ontario entrepreneurs vis-à-vis the role of government, there is also evidence of a lack of awareness on the part of the respondents. For example, one entrepreneur noted that he would like to see "the government hire a retired professional in my field to visit and make recommendations to improve my business." The Business Development Bank offered exactly this type of one-on-one counselling for years through its well-publicized Counselling Assistance to Small Enterprises (CASE) program (since replaced by the BDC's Consulting Group). Another respondent called for guarantees for small business loans, perhaps unaware that, under the *Small Business Loans Act*, government guaranteed term loans of up to \$250,000 are available through all chartered banks, and most credit unions, caisses populaires and trust companies.

9. This particular problem has been well documented in several government studies and reports and is the focus of the Joint Forum on Paper Burden Reduction, which was established in 1994 as a cooperative effort between small business and government to deal with 100 irritants.

In addition, despite the existence of a various entry points for information on government services,¹⁰ there were still, among the small business owners who responded to this survey, calls for “a list of programs available to small business, especially for financial assistance.” Apparently this knowledge gap exists beyond the borders of Northern Ontario: in their 1993 survey of 128 small enterprises in Manitoba, Good and Graves found that the average levels of awareness of training, financial and technological assistance programs were only 48%, 32%, and 26%, respectively.

A comprehensive discussion of government programming for small business is beyond the scope of this report. It is clear, however, that new or refined programs are not necessarily what is needed. The greatest needs seem to be improved access to programs and services through such avenues as the Canada/Ontario Business Service Centres (COBSC) and more effective communication to the end user.¹¹

For its part, government seems to be acutely aware of the need to eliminate the obstacles to small business development, although it is facing a major implementation challenge. There is the need to streamline government policies and regulations, and also to help foster an environment that is “sympathetic to the entrepreneurial ethic, [and] valuing innovation, self-reliance and calculated risk-taking,” (*The State of Small Business* 1990, 112).

In this same report, the Ontario Ministry of Industry, Trade and Technology noted the emergence of “a rapidly growing base of entrepreneurs who were often ill-prepared for the rigors of running a small firm,” (p. 111). In keeping with the observations on entrepreneurship characteristics included in the beginning of this

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10. As noted earlier, the Canada/Ontario Business Service Centres provide for improved access to information on small business services and regulations at all levels of government; this information is available through toll-free telephone or fax, CD-ROM or the Internet.
 11. Another glaring example of this lack of awareness within the small business sector comes from the *Aim for a Million* survey. Nearly 25% of the respondents were unfamiliar with the Small Business Deduction, which provides for a substantially reduced rate of income tax on the first \$200,000 of corporate income (Canadian Chamber of Commerce 1994, 17).

chapter, it is likely that the business owners in question are not true entrepreneurs. However, entrepreneurship skills can be developed. Well known management theorist Peter Drucker considers entrepreneurship to be "nothing more than a discipline" that "like every discipline... can be learned."

There are several well established programs and associations that have been expressly designed to nurture an entrepreneurial culture and broaden the scope of entrepreneurial activity, including regional business centres, and college and university centres of entrepreneurship. Governments need to look for ways to refine their role as facilitators of entrepreneurship development. This should encompass, for example, a clearing house function for information on investors, training and technical assistance as well as support for the creation of technology databases and research networks (*Growing Small Business* 1994, 44-45).

CHAPTER 4

Demographic Subgroups

As part of this investigation of the state of small business and entrepreneurship in Northern Ontario, an examination of particular subgroups was deemed to be a useful exercise. The three subgroups briefly examined include Women, Francophones and Aboriginals. The data on women business owners is drawn from Statistics Canada sources and the Northern Ontario business survey that forms the basis for this report. Similar sources were consulted to obtain data on Francophone entrepreneurs, along with a survey of the predominantly Francophone West Nipissing Region. A number of in-person interviews were conducted on four Northeastern Ontario reserves to poll the opinions of Aboriginal business owners.

Women Small Business Owners

The following brief discussion employs some of the findings reported in Chapters 1 to 3 to describe the business environment for women in Northern Ontario and point out specific differences between men and women.

Employment

Women are predominantly employed in the service sector; more than 80% work in the funded, retail trade, accommodation, market services and other services industries. The overall level of employment for women decreased by 2.7% between 1989 and 1993, a much smaller decrease than that reported for men during the same period (11.6%). Women benefited from the increase in employment in the funded and other services sectors, but they alone experienced a decrease in employment in the accommodation sector.

Large decreases in employment in some sectors did not affect female employment much because of the low level of female employment in those sectors (particularly in the mining and logging and forestry sectors). However, the increases in employment in some other sectors,

such as communication and other primary, did not compensate for women's employment losses because of women's low level of employment in these sectors.

Employment and size of business

Slightly more than 50% of employed Northern Ontario women work in businesses which have 100 or more employees, while 30% work in the smallest businesses, those with fewer than 20 employees. Compared to Southern Ontario or the Canadian average, women in Northern Ontario are over-represented in the smallest businesses and under-represented in the largest businesses.

Earnings

Women everywhere, including Northern Ontario, earn significantly less than men. The overall average earnings of women in Northern Ontario in 1993 was less than \$20,000, and only 61% of men's average earnings for the same year. Moreover, in small or medium-sized businesses, women earned less than \$16,000 on average, well below the poverty line. The earnings of women in Northern Ontario are similar to the average earnings of Canadian women, but well below the earnings of their counterparts in Southern Ontario.

The Survey of Northern Ontario Businesses

Twenty-eight percent (64) of the business owners who replied to the survey were women. The discussion below is based on this small sample, and is consequently tentative. Businesses owned by women are young (half were created since 1985) and small: 86% had fewer than 10 employees; 47% of the 40 respondents to the question asking for annual revenues had 1996 revenues under \$100,000 and only 10% had revenues over \$400,000. Sixty-two percent of the respondents had established their own businesses, while 27% had purchased existing businesses.

Financing the business

Both women and men predominantly rely on personal financing to start their businesses. However, women seem less likely than men to call on family members to invest in the start up. Women are also more likely

than men to borrow from a credit union or *caisse populaire* during the start-up phase. For their ongoing operating needs, both men and women use their personal resources and reinvest their profits; however, whereas men will almost exclusively next seek bank financing, women turn to banks, credit unions and *caisses populaires*.

The women (and men) in this survey tended to be successful when applying for a loan (80% acceptance, 9% outright rejection). It was, however, impossible to compare the results of loan applications to banks, credit unions and *caisses populaires*.

Government programs

Although the use of government assistance programs for the business community was low across all businesses in the survey, women were less likely than men to access these programs.

Running the business

The results discussed below are reported in more detail in Chapter 5. Only one third of women business owners regularly engage in market research; this is a low percentage that is also slightly lower than that of men. Only 43% use a written business plan to guide them in the development of their business, a percentage comparable to that for men. In addition, women are not as technologically active as are men — fewer own computers, fewer are connected to the Internet, and they generally assign less importance to and use the Internet to a lesser extent than men. Qualitative comments indicate there are gender-related problems facing women business owners, including that of gaining credibility in the business environment and the burden of child care.

The revenues of businesses owned by women were overwhelmingly derived from sales in the local market or in Northern Ontario. Of the total number of women respondents, only 10% derived more than 5% of their revenues from Ontario-wide sales, while only 5% had sales in other provinces. Only ten percent of the women respondents had sales outside of Canada. Moreover, only one non-exporter indicated that she was planning to export goods or services within in the next two years.

It is difficult to discuss the growth of the businesses owned by the women entrepreneurs who participated in this survey since many did not reply to all of the questions concerning growth. However, for those who did reply, growth since 1994 was mixed. Although 60% of the respondents had an increase in their revenues, only 30% saw their profit increase, and only 30% had increased the total number of employees in their businesses. Many are optimistic for the future: 84% expected their sales to increase during the next two years.

Francophone Small Business Owners

Table 4.1 indicates the proportion of Francophones in the Northern Ontario population, according to Statistics Canada (1991 Census, cited by Gilbert 1994¹).

CENSUS DIVISION	FRANCOPHONE POPULATION	TOTAL POPULATION	% FRANCOPHONE
Algoma	11,755	126,170	9.3
Cochrane	44,205	92,945	47.6
Kenora	1,795	58,315	3.1
Manitoulin	130	10,990	1.2
Nipissing	22,663	83,435	27.2
Sudbury District	55,515	185,825	29.9
Thunder Bay	7,808	157,210	5.0
Timiskaming	9,675	38,475	25.1
Total	153,546	753,365	20.4

Table 4.1 Francophone Population in Northern Ontario

The Francophone population of Northern Ontario is concentrated in the Cochrane, Sudbury, Nipissing and Timiskaming census divisions. Sixteen percent of the respondents to the survey of Northern Ontario businesses identified themselves as Francophones. This is a slight under-representation of the Francophone population for the area of approximately 20.4%, as illustrated in the table. This may be explained by the survey

1. A. Gilbert, *Les Francophones Tels Qu'ils Sont* (Ottawa: ACFO, 1994).

methodology or it may indicate that the population of Francophone business owners is not proportional to the general Francophone population.

There were no significant differences to report between Francophones and other non-Aboriginals in the survey, except that Francophones used a higher proportion of personal financing than non-Francophones at the start-up level. The only real distinction to be made between Francophone small business owners and others, is the Francophone business owner's ability to communicate in French with Francophone clients. This is particularly important in districts with sizable Francophone populations.

The use of French by Francophone small business people is much lower than reported elsewhere. Table 4.2 below illustrates these differences.

GROUPS	NORTHERN ONT. FRANCOPHONE BUSINESS OWNERS	BLATT STUDY (USE OF FRENCH)	CACHON & COTTON (USE OF FRENCH)
Clients	34.9	49.6	57.9
Employees	38	66.9	81.4
Suppliers	19.6	43.7	45.6
Financial Institutions	19.1	55	86.1
Municipal Government	16.3	52.7	78.9
Provincial Government	10.8	39.3	52
Federal Government	13.6	not reported	59.7
Number of Respondents	35	704	83

Table 4.2 Languages Used in Communications by Francophone Small Business Owners in Northern Ontario (%)

The 35 Francophone respondents to the survey reported using English with their customers on average 65.1% of the time, and French 34.9% of the time. This differs from a study by Blatt,² in which only 13.1% of the Francophone respondents were from Northern Ontario, while 73.4% were from the Ottawa region. Cachon and Cotton³ studied business

- R. Blatt, "Les entrepreneurs franco-ontariens," *Revue du Nouvel-Ontario* (1992) 13-14, 57-70.
- J.-Ch. Cachon and B. Cotton, *The I.N.O.V.E. Project* (Sudbury: Laurentian University Press, 1997).

owners in the West Nipissing region, which is predominantly Francophone (71.6%) and rural. Respondents to a survey carried out as part of this latter study also reported the widespread use of English in advertising (87.9%), and on business cards and letterhead (93.5%).

Aboriginal Small Business Owners: A Survey of Four First Nation Reserves in Northern Ontario⁴

Although several authors have studied Aboriginal businesses, most have done so from a macroeconomic perspective. For example, Jankowski and Moazzami (1995) reported that the level of self-employment in the Aboriginal population in Northern Ontario is 4.1%, compared to 8.5% and 7.7% for the Anglophone and Francophone populations respectively. A case study of the development of two Northern Ontario businesses included in the 1995 publication *Perspectives on Aboriginal Economic Development in Ontario*, examined the effectiveness of the Jobs Ontario Community Action Aboriginal Program. Also, Jordan (1997), a Toronto banker who specializes in Aboriginal lending, describes businesses on reserves as predominantly sole proprietorships, home-based, undercapitalized and under-financed. Few empirical studies of Aboriginal businesses have been reported in the literature (Christe 1996).

This section is based upon interviews conducted with Aboriginal business people located on four different First Nation reserves in Northern Ontario. The Aboriginal questionnaire included questions on owner and company background, financing, training, marketing, sales, and other business issues. It also included three qualitative questions dealing with:

- problems or difficulties related to being in business on a reserve;
- specific services entrepreneurs wish to see developed for businesses on reserves; and
- creating a more viable business environment on the reserve.

4. Sherry-Anne Frost provided research assistance for this section, while Chief Margaret Penasse-Mayer provided comments on the manuscript. Their contribution is gratefully acknowledged.

It is generally known that Native people's rights to tax exonerations on reserves (under section 87 of the *Indian Act*) are not completely clear (Jules 1997), particularly with respect to businesses that sell both on and off-reserve. In 1995, Revenue Canada changed its criteria for identifying on-reserve property and some court challenges are still pending. This has tax and collateral implications. The availability of skilled human resources is an endemic problem, as high unemployment on reserves (25% according to Jordan) forces people with an education to seek work outside the reserve, thus creating a brain drain.

Business people, band officials and economic development officers made similar comments to the researcher. They believe the problems of Aboriginal on-reserve businesses are well known. The problems can be divided into three main areas: financing, human resources and taxation. Traditional bank financing is rarely available since land is collectively owned by band members and cannot be secured as collateral. Furthermore, a band member who owns a business can only sell it to another band member (a factor that limits the extent of bank financing).

Since the response rates to surveys of First Nation residents tend to be low, discouraging the use of a random mailing for this study, the approach chosen was that of personal interviews. Owing to time and resource constraints, only a small number of reserves could be included in the survey. First Nation band members were approached only after an explanatory meeting with either of the economic development officer, the chief or a band council member. It was found that, even if band administrations kept listings of businesses, locating business owners was difficult since many operations are home-based as well as seasonal: for example, entrepreneurs in the trucking and construction industries could never be reached as their activities are conducted outside the reserve. However, a total of 44 entrepreneurs were contacted and 20 questionnaires were answered, for an overall response rate of 45.5% across the four reserves.

The types of businesses that Aboriginal people are involved in include trapping, raising fur animals, farming, manufacturing, and — most often — the service and retail sector. Typical operations within this latter sector include gas stations and vehicle or equipment repair, furniture repair, chip stands, septic services; tourism activities, including marinas,

lodges, and craft and souvenirs shops; and beauty salons). One of the respondents had business locations both on and off the reserve.

The Aboriginal business owners who participated in this survey have lower levels of formal educational attainment than their non-Aboriginal business counterparts, as shown in Table 4.3.

GROUPS	PRIMARY	SECONDARY	TRADE	COLLEGE	UNIVERSITY	OTHER
Aboriginal	15.8	42.1	0.0	36.8	5.3	0.0
Non-Aboriginal	2.8	29.4	15.2	22.7	28.4	1.4

Table 4.3 *Level of Formal Education, Aboriginal vs. Non-Aboriginal Entrepreneurs (%)*

Aboriginal business owners tended not to have compensated for their lower levels of formal education by pursuing business training. However, they recognized a need for training and counselling in the areas of budgeting; taxation; and operations following start up. There was a preference indicated for in-house training, similar to that available in non-Aboriginal settings. Some respondents suggested the creation of on-reserve training centres or activities, aimed at resident entrepreneurs or would-be entrepreneurs.

As noted, bank financing is often unavailable to Aboriginal entrepreneurs, mainly because of a lack of collateral. The absence of on-reserve financial institutions was cited as another problem: reserve incomes are channeled out of the reserve and out-of-reserve financial institutions do not gear their services towards meeting the needs of their small, Aboriginal clientele. Business owners also mentioned that they experience difficulty in attracting investors on a reserve.

In commenting on government assistance programs, respondents indicated that they often felt isolated and outside of information channels. The availability and conditions of programs for small business are not clear to the respondents. Some wondered what happened to the Aboriginal Procurement Policy adopted by the federal government in 1996. Regarding other programs, 61.1% of the Aboriginal respondents had received a significant amount of government assistance in the past from the following organizations: Aboriginal Business Canada, Health

Canada, Agriculture and Agri-Food Canada, Human Resources Development Canada, the Indian Agricultural Program of Ontario, FedNor and Northern Development and Mines. A few comments were made about the persistence of 'red tape' and the necessity for governments to "make one set of regulations... as they currently are different everywhere."

Aboriginal business people find networking to be difficult both within and outside of their reserve; very few Aboriginal entrepreneurs belong to local organizations. In addition, a majority of the Aboriginal respondents saw no benefit to networking. This contrasts with the views of the non-Aboriginal business owners surveyed, the majority of whom see networking as important to their business.

The geographic isolation and small size of First Nation communities are often considered to be barriers to success by Aboriginal business owners, who primarily serve small, local markets. These factors can contribute to higher business costs and, consequently, higher prices when, for example, retailers cannot obtain volume discounts. Business is lost because customers choose to shop at lower prices in communities outside the reserve. The limited geographical territory of the reserve can also represent an obstacle to business development; the lack of availability of additional reserve lands for agriculture was preventing at least one farmer who responded to the survey from expanding.

In conclusion, Aboriginal small businesses operating on reserves are not well positioned for growth and success. They face many difficulties common to other businesses in Northern Ontario but they also have barriers unique to them, including low levels of formal educational attainment, a lack of training opportunities, small markets and difficulty in obtaining bank financing. This study involved only Aboriginal businesses located on reserves. It is worth noting that, according to the economic development officers consulted by the researchers, many Northern Ontario band members live off-reserve and operate successful businesses in Southern Ontario (particularly in the Toronto area). This type of 'brain drain' has been experienced across Northern Ontario, but its effect on the smaller First Nations communities is probably more dramatic: when businesses with potential cannot be developed on a reserve, the only remaining opportunities are available elsewhere.

CHAPTER 5

Growth Indicators and Opportunities

Global Economy, Global Challenges

Small businesses face a new and daunting set of challenges today. Rapid progress is revolutionizing communications and information technology. International trading arrangements have been liberalized to facilitate a global economy. In addition, new forms of business organization are emerging in response to fundamental changes in the business environment. Taken together, these challenges *do* create new markets and opportunities for resourceful firms; however, they may also pose a serious threat to businesses that are complacent in their own markets. Small firms will experience particular difficulty in this new business environment because of the traditional impediments they face, such as underdeveloped marketing abilities, limited technological sophistication, a lack of skilled employees, inadequate management skills and restricted access to capital.¹

Two recent publications of the Government of Canada, *Growing Small Businesses* and *Strategies for Success*,² investigate the strategies employed by small and medium-sized enterprises (SMEs) that are experiencing growth and success. The publication *Strategies for Success* is particularly relevant to this analysis of Northern Ontario SMEs. It is based on an empirical analysis of 1,480 Canadian SMEs that had growth in employment, sales and assets between 1984 and 1988. The analysis develops a profile of these firms by measuring the importance that they attribute to specific strategies and activities. It illustrates how company capabilities and inherent characteristics determine the prospects for growth and success. Although the growing firms in *Strategies for Success* are generally larger than those included in this study of the Northern

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1. *Growing Small Businesses* (Departments of Finance and Industry, 1994).
 2. J. Baldwin, *Strategies for Success, A Profile of Growing Small and Medium-sized Enterprises (GSMEs) in Canada* (Statistics Canada, 1994).

Ontario firms, the activities and characteristics identified as important to the growth and success of somewhat larger firms are likely to have been important throughout their earlier growth phases.



Chart 5.1 Indicators of Growth and Success

Chart 5.1 shows the activities and characteristics identified in both *Growing Small Business* and *Strategies for Success*. The balance of this chapter deals with these activities and characteristics in a Northern Ontario context (with the exception of financing, which is discussed in Chapter 3).

Marketing

Trading Outside of the Local Market

Baldwin, in *Strategies for Success*, found that rapidly growing small businesses conduct a significant amount of business outside of their regions, even if they do not trade internationally. The search for new markets and an emphasis on marketing play a central role in the activities of these firms. About 22% of the firms' investments are directed toward marketing and a large percentage of their sales come from outside the home province. Many are also active participants in

export markets. For example, the investigator found that growing manufacturing firms in Ontario generate 45% of their revenues from sales to customers outside of Ontario and 22% outside of Canada.



Chart 5.2 Geographic Breakdown of Revenue Sources, Northern Ontario Firms

Chart 5.2 shows the geographical distribution of sales for the 150 Northern Ontario businesses that answered this question. Fully 111, or 74%, reported that sales from their local market account for at least 75% of their total revenues. Baldwin only reports the geographical distribution of sales for growing, small and medium-sized manufacturing firms in Canada. However, he states that “while the percentages of GSMEs’ sales that are exported to world markets are generally smaller than for the Canadian manufacturing sector (which is dominated by large firms), GSMEs are active participants in world trade.” His results for Ontario manufacturing firms are reproduced in Chart 5.3. It is clear, when comparing the sales distributions shown in Charts 5.2 and 5.3, that Northern Ontario firms are very small

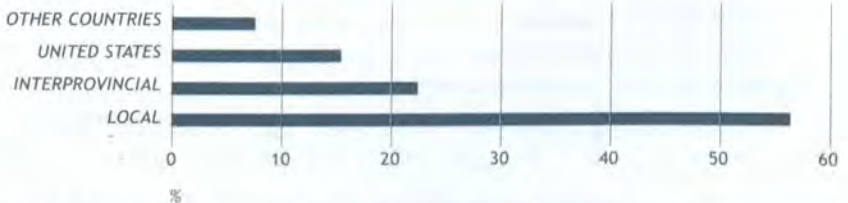


Chart 5.3 Geographic Breakdown of Revenue Sources, Strategy for Success, Ontario Firms

participants in interprovincial and world markets compared to manufacturing firms in Ontario as a whole.

Chart 5.4 shows the number of Northern Ontario firms, in percent, which trade in other countries, other provinces, within the province and locally. Chart 5.5 shows the average revenues generated in these specific markets by these firms.



Chart 5.4 Number of Firms in Specific Markets

For example, 9% of the 150 Northern Ontario respondents, or 14 firms, trade in other countries, as shown in Chart 5.4; these firms generate 18% of their revenues on average from other countries (Chart 5.5). Moreover, of the 14 firms that export abroad, only four generate 20% or more of their revenues from export markets. Neither the size of the firms, the location or the type of business has an influence on the trading pattern of the firms. Northern Ontario firms are highly dependent on their local, regional and provincial markets.

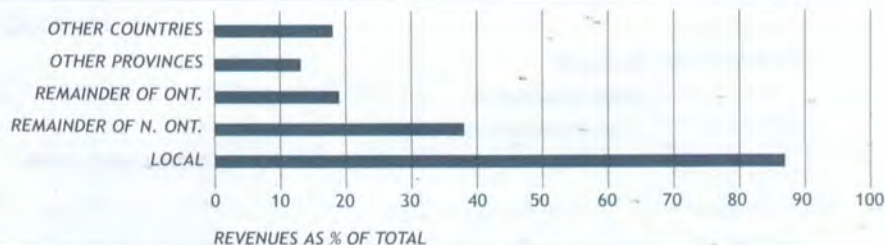


Chart 5.5 Geographical Distribution of Revenues

Market Research and Competition

Table 5.1 shows that firms in Northern Ontario do not regularly engage in market research; on a scale of 0 - never, to 100 - regularly (50 - occasionally), the mean response to the question on the extent of market research activities was 36. Firms in rural northwestern Ontario and firms in manufacturing, construction, transportation and repair appear to be the least active in this domain.

	RESEARCH EXTENT (0-100)	COMPETITION STRENGTH	
		Now (0-100)	Future (0-100)
Whole Sample, n=211	36	58	60
SEX - Male	38	59	60
Female	32	57	61
LOCATION - City NE	40	59	60
City NW	32	59	63
Rural NE	38	59	60
Rural NW	22	54	56
TYPE - Tourism	38	59	67
Prof. Services	34	53	55
Retail	46	61	61
Manuf. Const.	28	66	67
Transp. Repair	28	61	64

Table 5.1 Extent of Market Research and Perceived Competition

The respondents were also asked to assess the strength of their competition on a scale of 0 - very weak, to 100 - very strong (50 - average). Table 5.1 shows that business owners in general rate their competition as just above average; those offering professional services and those located in rural Northwestern Ontario assigned a slightly lower rating than other entrepreneurs. Most business owners anticipate only a slight increase in the strength of their competitors within the next two years, except those in the tourism industry, who anticipated a substantial increase. Although business owners do not appear to worry about their markets, they may not have the information they need to adequately assess market conditions, since they do not regularly engage in market research activities.

Technology

Table 5.2 shows the use of technology reported by survey respondents. Fully one quarter of the respondents neither own nor lease a computer, while another 50% use one or two computers in their business. As expected, older owner-managers (more than 50 years of age) are less likely to own a computer in their business, irrespective of gender. Fifty-eight percent of the respondents reported that the daily administrative tasks of their business are computerized.

	NO COMPUTER %	NOT CONNECTED %	MEAN HRS OF INTERNET USE PER MONTH	IMPORTANCE OF INTERNET SCALE 0-100 MEAN	MEDIAN
Whole Sample	25	72	10	20	7.5
AGE GROUP-Under 35	17	60	20.2	28	15
35-49	20	73	9.3	21	10
50+	38	79	3.8	15	5
SEX-Male	24	70	12.5	22	10
Female	28	78	2.2	17	5
LOCATION-City NE	26	80	6	19	5
City NW	12	63	14.8	26	12.5
Rural NE	31	69	13	19	5
Rural NW	42	79	5.3	13	5

Table 5.2 Firm Use of Technology

Only 28% of the firms are connected to the Internet, and only 50% of these firms spend any time on it. Fully 44% of Internet users reported spending eight or fewer hours per month on the Internet. Sixty-two percent of the respondents did not deem the Internet to be important to their business activities. The mean on a scale of 0 to 100 on the importance of the Internet was 20, with a median of 7.5. Only 18 firms or 11% of the respondents have a Web page.

An analysis of the firms by location shows that those located in the cities of northwestern Ontario are more technology-active. Entrepreneurs in northwestern Ontario cities attach a higher degree of importance to the Internet than do those in other locations. More have computers and

more are connected to the Internet. On the other hand, firms located in rural northwestern Ontario are substantially less active. More than 40% do not have a computer. They attach little importance to the Internet, and on average use it very little.

Human Resources Training

Baldwin (1994) reports that growing firms place as much importance on human resource strategies as on marketing strategies. Growing firms recognize the importance of a skilled, knowledgeable and flexible work force, and this is reflected in their investment in training.

The survey of Northern Ontario businesses included three questions dealing with formal training. The first asked about the percentage of operating expenditures allocated to training, while the other two pertained to the type of training and preferred training methods. The dollars spent on training and the amount spent per full-time employee were calculated for each firm. The results of this analysis are reported in Charts 5.6 and 5.7.

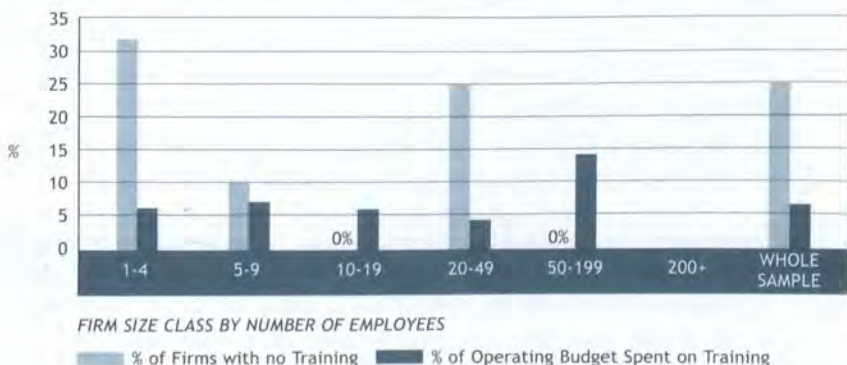


Chart 5.6 Employee Training by Firm Size

Note: There were no respondents in the 200+ category.

Twenty-five percent of all the respondents did not spend any money on training their employees in 1996. It is clear that the smallest firms are the least likely to pursue formal training. One third of the firms that invest



Chart 5.7 Training Expenditure per Employee by Firm Size

Note: There were no respondents in the 200+ category.

in training spend less than 3% of their total operating expenditures for this purpose, and 85% spend 10% or less. On average, firms that invested in training spent \$53,363 per firm or \$7,473 per full-time employee.

It is difficult to draw conclusions regarding the impact of the size of the firms on training expenditures since only a small number of responses were received in some of the size classes. However, it appears that the firms in the sample that undertake training are spending more than the firms included in *Strategies for Success*, whether the training expenditures are measured in terms of dollars spent, dollars per full-time employee or as a percent of operating expenditures.

TYPE OF TRAINING	n	%	TIME SPENT PER YEAR	
			Median (hrs.)	1 Week+ (%)
Management	70	50	33	49
Technical	94	67	40	57
Accounting	55	39	20	31
Health and Safety	65	46	20	25
Other	34	24	60	70
Whole Sample	141			

Table 5.3 Type of Training and Time Invested

The percentages add up to more than 100 because of multiple responses.

The respondents were more likely to undertake technical training (67% of the respondents did), and 57% of those who did allocated more than one week per year per employee for this purpose. A small number of firms also undertake extensive specialized training (see Table 5.3).

The overwhelming majority of respondents (79%) favor training in house, and half like to send their staff to seminars. Only 11% like institutional training. The use of more modern technologies, such as video conferencing, CD-ROM or the Internet, is not yet widely accepted by the respondents. In conclusion, too few small firms are training their employees; however, those that do are investing significantly in their employees.

Organization Strategies

Networking

Networking is an important activity that helps organizations survive and prosper in difficult economic times.³ Although Canada has not yet established a formal networking strategy, as have other countries such as Denmark and Italy, Canadian small business owners can still find many opportunities to collaborate and associate with others, whether formally or informally. Traditionally, organizations such as Chambers of Commerce or professional associations have provided a formal platform that enables small business owners to learn from and assist one another. Counselling from bankers, accountants, colleagues or partners has also played an important role in business development.

More recently, small and medium-sized enterprises have formed groups to take on specific projects and activities, such as joint purchasing, staff training, financing, research and development, joint office space and administrative support; joint commercialization of new products or services, joint marketing or joint export development. Networks can be horizontal groupings of similar-sized firms in the same industry, vertical groupings of smaller firms supplying larger firms or cross-sectoral groupings of firms engaged in innovation and new product

3. *Growing Small Businesses.*

development. The demographic and geographical characteristics of Northern Ontario indicate that it is even more important for firms in the North to embrace networking in order to prosper.

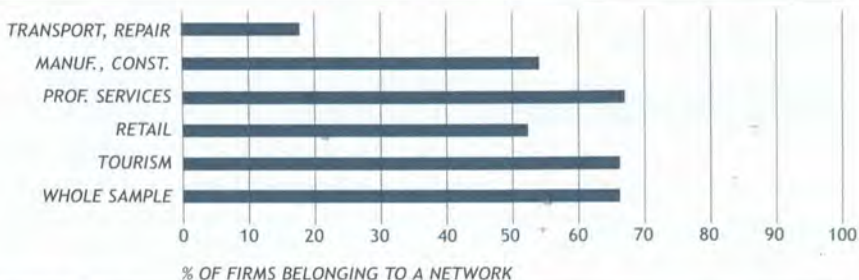


Chart 5.8 Participation in a Network

As shown in Chart 5.8, the survey of Northern Ontario firms found that 44% of the respondents do not belong to a formal network or a professional organization. Those business owners who do have mixed feelings about the usefulness of their network (on a scale of 0 - not useful, to 100 - very useful, the mean of the responses is 58, the median 60 and the mode 50). Almost half of Northern Ontario business owners do not consider these formal sources of help to be important, and as a result may be missing opportunities to improve their operations.

It is interesting to note the significant differences by sector of activity: more businesses in professional services tend to belong to a network than expected, and firms in transportation or repairs overwhelmingly do not belong to a network or professional organization. Factors such as the size of the firm in terms of full-time employees, its location, or the gender or age of the respondent do not seem to influence the decision to belong to a network.

One component of networking is that of seeking business advice. Table 5.4 shows that the three most important business advisors sought out by Northern Ontario business owners are: a person in the same industry, mentioned by 61% of the respondents; an accountant (49%); or a supplier (38%). It seems that small business owners are aware of the importance of horizontal groupings of firms in the same industry and of vertical groupings with their suppliers. The analysis also shows a strong

	SAMPLE n=229	
	n	%
Person in Same Industry	140	61
Accountant	113	49
Supplier	86	38
Financial Institution	45	20
Lawyer	37	16
Board of Directors	16	7
Market Research Specialist	15	7
Anyone Else	34	15
Total Responses*	486	213
Missing Cases	31	14

Table 5.4 Who Are Advisors to Business?

* Multiple-response Question.

association between networking and exporting activities, thus confirming the importance of forming links in order to access new markets and facilitate growth.

Planning

More than half of the firms surveyed (56%) did not have a formal business plan and small firms with one to four employees were the least likely to have one. However, the results also showed that many larger firms did not have a business plan. For example, 64% of the firms with revenues between \$250,000 and \$499,999, and 50% of the firms with revenues between \$500,000 and \$1,000,000 do not plan formally. Since it has been found that planning is important to business development, many firms in Northern Ontario are limiting their prospects by failing to plan.

The firms that had a business plan indicated that the plan was usually developed by the owner or by firm partners (88% of the time). External consultants were used only 12% of the time. Most often (53% of the time), plans were developed as a guide for the business, while for 43% of the firms, a plan was developed as a prerequisite for financing. In general, the plan was found to be quite useful (on a usefulness scale of 0 to 100, the responses indicated a mean of 68 and a median of 70).

Growth

Past growth

The rate of growth in the past can be used as an indicator of the future. Table 5.5 shows the recent growth of Northern Ontario firms measured in changes in full-time employment, part-time employment, total employment, revenues and profit between 1994 and 1997.

Total employment for firms reporting both 1994 and 1997 figures increased from 1,604 employees in 1994 to 1,713 in 1997, a growth rate of 11%; full-time employment grew by 13% and part-time by 8% over the period. Approximately one third of the firms reported growth in full-time or total employment since 1994, while the employment level of almost half of the firms remained constant. Over half of the firms exhibited growth in revenues or in profit. This indicates that many firms became more efficient during the period, since they generated greater revenues and profit with the same number of or fewer employees. However, many firms also reported a decrease in revenues or profit, which does not bode well for the future.

	DECREASE		NO CHANGE		INCREASE		TOTAL
	n	%	n	%	n	%	n
FT Employment	34	21	76	47	51	32	161
PT Employment	23	20	61	54	29	26	113
Total Employment	38	21	75	42	65	37	178
Revenues	43	34	8	6	75	60	126
Profit	36	41	8	9	44	50	88

Table 5.5 Growth Statistics

n = Number of Firms.

Growth Prospects

Most business owners were optimistic about the future: 82% of the 190 respondents to this question expected their sales to increase over the next two years. Among the 149 who ventured a guess, the average expected growth rate was 25% (median of 15% and mode of 10%).

However, this expected increase in sales is not expected to lead to an increase in employment: 36% of the 219 respondents expected no increase in employment, and 43% expected to hire either one or two employees. If the entrepreneurs' expectations are fulfilled, a total of 355 jobs will be created within the next two years, representing a significant increase in total employment for these firms.

CHAPTER 6

Summary and Framework for the Future

The preceding chapters provided basic data on business and employment in Northern Ontario and discussed several factors important to business growth. This chapter provides an overview of the recent economic picture, along with a framework for assessing the state of small business and entrepreneurship in the North in the future, with reference to factors identified as important to business formation and growth.

During the early part of the 1990s, the business community in Northern Ontario did not do as well as business communities in other regions of the country. The overall number of businesses grew more modestly, as did the number of businesses within many industrial sectors. Growth in the number of small businesses, which are the engine of economic growth and employment in the New Economy, was also lower than in other regions.

The last recession was particularly hard on Ontario. The employment gains of small businesses in Northern Ontario were marginal compared to those of small businesses in other regions. The downsizing of medium-sized and large businesses during the recession had a greater impact on employment levels in Northern Ontario than in other regions. In addition, because the average earnings within large businesses in Northern Ontario are higher than in the other regions considered in this study, downsizing in these businesses had a more pronounced impact on the earnings capacity of this region than it did elsewhere. Any take up of displaced large business employees by small business results in a net decrease of wages in the region as small business wages are substantially lower than those in large businesses.

The employment loss during the 1989 to 1993 period was more pronounced in northeastern Ontario than in the northwest. Employment losses in Northern Ontario during this period were greater for men than women. Since men earn more than women in all business sizes, the loss of employment by men has a more profound impact on the amount of payroll dollars in a community.

It is impossible to measure how much of the change described in this report is part of a long-term trend, or the result of the last recession. Current and more detailed data, if and when it becomes available, should help resolve this important question.

Growth in the number of businesses and perhaps, more importantly, the size of businesses has a significant impact on a local economy arising from the creation of additional employment and the higher wages paid by larger businesses. This is illustrated in Table 2.5, which shows that companies with 99+ employees typically pay wages that are more than double those of companies with one to 19 employees. Business growth is one way of identifying which businesses are entrepreneurial and which will remain small. The next section summarizes factors that are associated with growth and growing businesses.

Market research activities and business planning are notoriously underutilized in small businesses located in the North, as reflected in this sample. More than 55% of the businesses surveyed do not have formal plans and market research is used less than 40% of the time. This is typical of small businesses, which often do not have the resources, time or expertise to engage in these activities. Planning and market research are not among the routine activities of Northern Ontario firms.

Educating business owners on the importance of these activities should help foster businesses that are more responsive to their environment and better able to take timely advantage of changing market conditions. A study of growing businesses in Northern Ontario might reveal the extent to which these activities are valued.

Financing for the start-up phase and the ongoing operating needs of the business comes predominantly from personal resources and the reinvestment of profits. Less than one quarter of the start-up and operating financial resources utilized by the firms in this study came from financial institutions. Small and medium-sized enterprises in Northern Ontario may be constrained by a lack of capital at start-up and for growth. This issue should be investigated further, since, in general, loan applications to financial institutions seem to be successful and business owners are relatively satisfied with their relationships with their financial institution.

Exporting is an area identified as crucial to business growth. Small business owners should be exposed to the possibility of exporting products and services as part of any effort to promote business and economic growth. The indications from this small-sample study of Northern Ontario businesses are that less than two percent of revenue is derived from international exports, and a similarly small amount from interprovincial trade. Among Northern Ontario businesses selling within the province of Ontario, less than five percent of revenue is derived from outside Northern Ontario, and less than 20% from regions of Northern Ontario beyond their local market. Northern Ontario firms tend to be somewhat insular; the majority of their revenue (75%) is earned in their local markets. Since the size of the population, and therefore the market, in Northern Ontario is not growing, firms must serve other markets in order to grow. Consequently, facilitating access to these other markets is very important. A larger baseline study of exporting from Northern Ontario would provide data that could be used to assess future performance.

Another business activity, networking, is related to exporting. Since exporting is largely dependent upon making contact with other markets, networking comes into play. It helps prospective exporters establish these contacts and meet people who have information regarding business operation and potential market opportunities. This is an important area and any future study should establish some baseline statistics for this factor.

Training is a key activity for successful businesses. Those businesses polled in the *Strategies for Success* study attach as much importance to training as to marketing strategies. The Northern Ontario sample indicates that those firms that do invest in training spend a significant amount of money; however, there are still a large number of firms that do not undertake any training at all. Although many Northern Ontario businesses recognize the importance of a skilled work force, smaller businesses may need some assistance to gain access to training opportunities for their employees. Further measurement of training undertaken in businesses would be appropriate to solidify these results. Facilitating access to training through direct or indirect intervention should be a goal of policy makers for Northern Ontario.

The use of technology may be one way for firms to facilitate their own growth. Indeed high technology businesses are growth businesses by definition. It would be useful to assess the level of technology use in Northern Ontario businesses as well as the prevalence of high tech businesses in the North in order to measure the future effects of technology on the economy. High tech businesses may be particularly attractive for Northern Ontario, as they tend not to be hampered by the physical distribution problems associated with conventional manufactured goods. Any policy or activity that facilitates the migration to and development of high tech businesses in Northern Ontario would be a positive step for the economy.

Northern Ontario business owners generally do not make use of government programs and do not see value in these programs. Among a significant proportion of the business community, this attitude may be attributable to a lack of communication. It is important for government agencies to develop programs in active cooperation with small business owners and to ensure that the communication channels with business owners are open, so that the programs are known and utilized.

Framework for Growth

The economic prosperity of Northern Ontario is highly dependent on the health of its small and medium-sized businesses. Growth does not occur by itself. It depends on a number of management and market factors which, when combined, facilitate, slow or arrest the phenomena. Table 6.1 below illustrates this relationship.

MARKET POTENTIAL FACTORS (niche, growth window, etc.)	HIGH	Life-style Small Firms	High Growth or Entrepreneurial Firms
	LOW	Marginal Small Firms	Successful Small Firms
		LOW	HIGH
		MANAGEMENT FACTORS (Propensity for, and ability to manage growth)	

Table 6.1 Management and Market Potential Factor Relationships

Adapted from Sexton 1991, p. 14 (Lifestyle firms are often craft-oriented firms in which the owner is comfortable and cannot or does not want to grow the business).

If there is a local or export market for the product or service and if management can identify that market and marshal the appropriate resources and strategies to serve the market while keeping the employees on track and happy, then the firm will be high growth or entrepreneurial. If there is a weakness in one of these key factors or if the owner chooses not to grow, the firm will fit into one of the three other boxes. In economic development efforts, policy makers should be facilitating the migration of firms into the upper right quadrant of Table 6.1, high growth firms.

In setting up a framework to accommodate the ongoing analyses of the health of Northern Ontario small businesses and entrepreneurship, reliable data sources are required. This study used a combination of Statistics Canada data in addition to a small primary data collection. Although the investigators were able to estimate the number of small businesses in Northern Ontario, they were unable to provide statistics on the births and deaths of businesses over a period, a crucial baseline factor for assessing the general health of the small business sector. A related issue is the listing of businesses by age, as the 'staying power' and growth rates of business are important factors in establishing sales momentum within a market.

Given the above factors, what type of framework is required to assess the status of and facilitate progress in business growth? A framework should include three broad divisions of activity: data collection, government activities, and business activities and competencies. Since management is largely based on the measurement of performance, data acquisition is a central requirement. Data can be used by business on a micro level to implement and maintain a growth strategy. Government can use macro-level data to inform efforts to facilitate a positive environment for business growth. Businesses can increase their growth potential through research, networking and training. Government can facilitate this through the creation of a supportive business environment. Table 6.2 illustrates the necessary components.

BUSINESS ACTIVITIES AND COMPETENCIES

- Business outlook
- Use of technology
- Sales derived from exports
- Amount of resources spent on training
- Amount of resources spent on networking
- Extent of market research, market and business planning

GOVERNMENT ACTIVITIES

- Assistance and support programs available in key areas
- Policy initiatives or directions
- Communication to business

DATA COLLECTION

- Number of Northern Ontario businesses by size, by age and industry
- Births and deaths of business by industry, size and age
- Growth rates of firms
- Sources of financing
- Business employment by business sector, size and earnings
- Specific characteristics of the high tech sector
- Specific characteristics of successful growing businesses
- Number and characteristics of exporting and tourism-based businesses

Table 6.2 Framework for the Future

Small businesses are key to the economy, as already noted. As important and perhaps more important to economic development is the ongoing health and growth of these businesses into medium-sized and large businesses. Just as a farmer does not abandon the seed in the ground once it is planted, so should policy makers monitor and facilitate the growth of small businesses in the economy. This requires the development of programs and policies relevant to ongoing business operations in addition to the focus on new small businesses.

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APPENDIX A

Survey of Small and Medium-sized Firms in Northern Ontario

Methodology

A random sample of business firms in Northern Ontario included in the database of Canadian Business Information, a commercial provider, was chosen. Eligible firms were selected based on their Northern Ontario postal code and on the number of employees in 1996. The firms had to have fewer than 100 employees.

The survey was conducted by mail with a reminder card follow-up. A telephone reminder was given to one third of the sample. The survey was sent in early May 1997 to 1,504 firms; 72 envelopes were undeliverable. A response rate of 16% produced 229 valid responses from the 1,432 firms that received the questionnaire. A copy of the survey is appended. Specific characteristics of the sample are illustrated in the charts below.

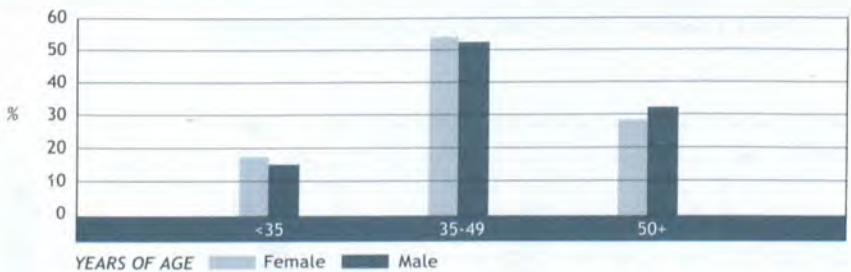


Chart 1 Age of Business Owners vs. Gender

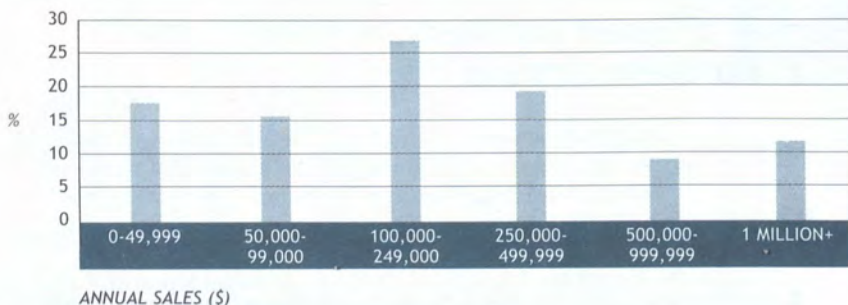


Chart 2 Business Size of Respondents

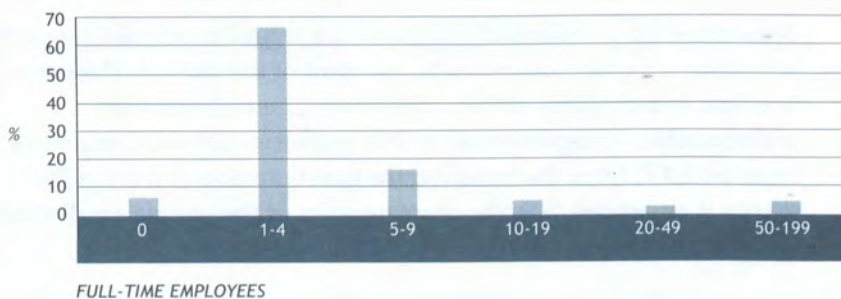


Chart 3 Number of Full-time Employees of Respondents

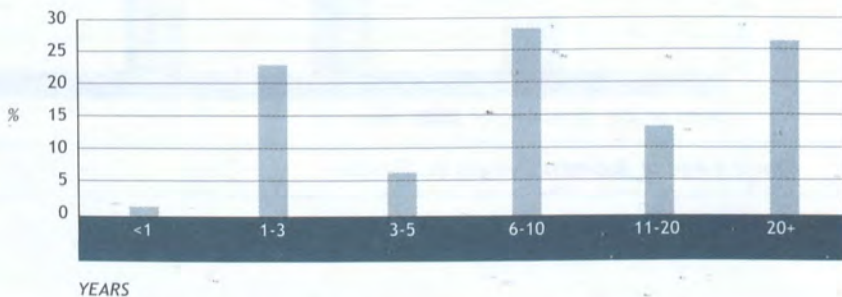


Chart 4 Length of Time in Business

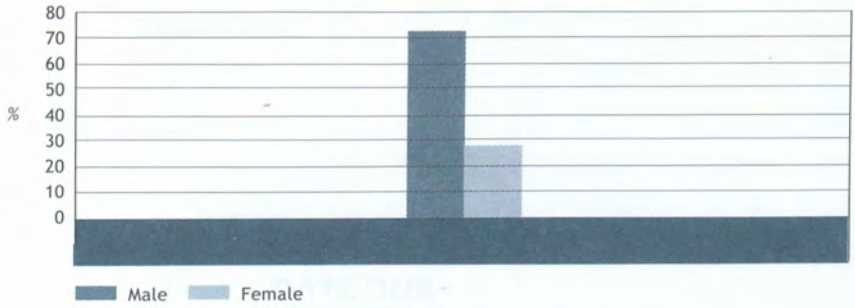


Chart 5 Gender of Respondents

